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ABSTRACT

The nature of the loan default problem in New Jersey, the reduction of defaults in the New Jersey Guaranteed Student Loan Program, default prevention initiatives, and the recommendations of the Default Task Force are discussed. Findings include the following: (1) most defaulters are low-income students, and half were students in proprietary school vocational training programs, not in colleges; (2) college graduates rarely default on their loans; (3) the typical defaulter is a poor, poorly prepared student who drops out and therefore cannot get a job that pays enough to repay the loan; (4) 85% of defaulters eventually repay their loans fully or partially; (5) default rates and number of defaults have been declining for several years for loans guaranteed by the New Jersey Higher Education Assistance Authority (NJHEAA); and (6) the number of NJHEAA defaults declined significantly in 1987 and are expected to continue to decline. Many recommendations to the NJHEAA resulting from the Default Task Force discussions have already been implemented, and further recommendations will be implemented later this year. Appendices provide data on borrowers, repayment patterns, default rates, and state compliance. (KM)

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TOWARD THE REDUCTION OF STUDENT LOAN DEFAULTS IN NEW JERSEY

REPORT OF THE NEW JERSEY DEFAULT TASK FORCE

A Joint Committee of the
New Jersey Association of Student Financial Aid Administrators
and the
New Jersey Department of Higher Education

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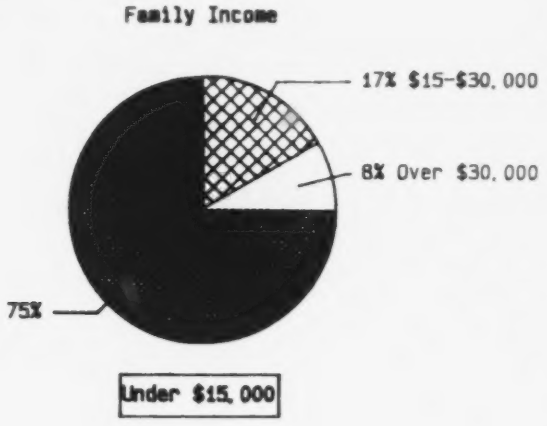
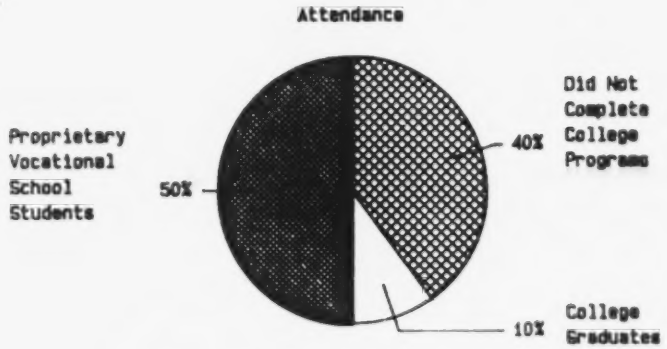
WHO DEFAULTS?
A PROFILE OF NEW JERSEY STUDENT LOAN DEFAULTERS

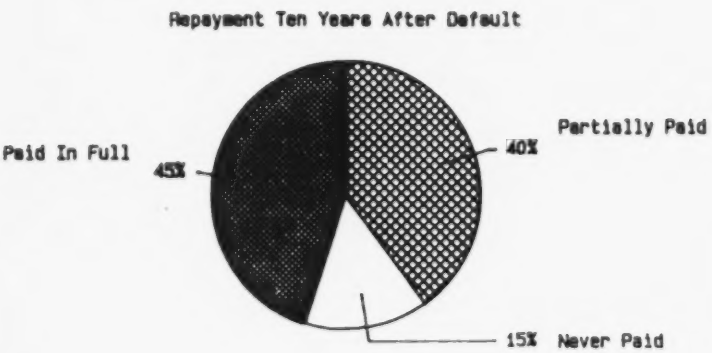
DEFAULTERS ARE POOR:



THEY ARE NOT COLLEGE GRADUATES:

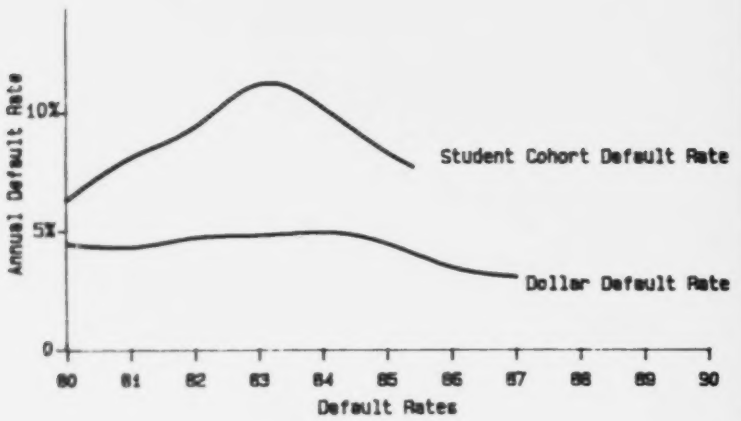


THEY PAY BACK THEIR LOANS:

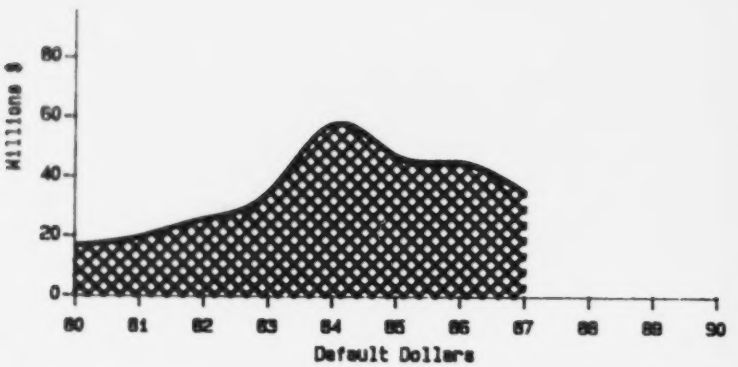


DECLINING DEFAULTS IN NEW JERSEY

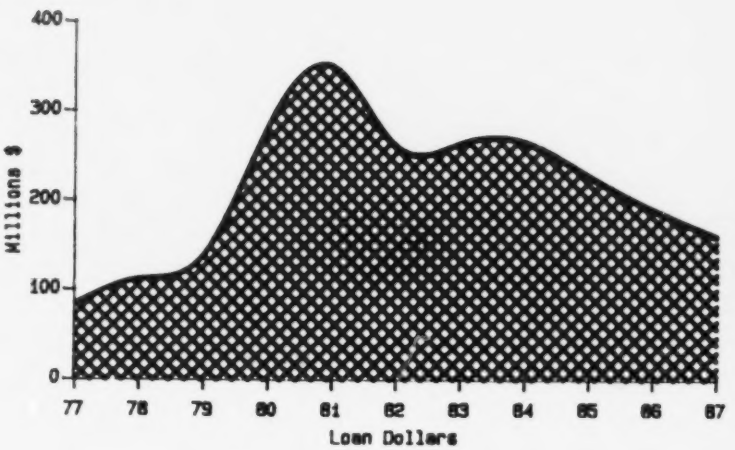
NEW JERSEY DEFAULT RATES HAVE BEEN DECLINING:



NEW JERSEY DEFAULT DOLLAR VOLUME HAS BEEN DECLINING:



FUTURE DEFAULT TRENDS WILL REFLECT CHANGES IN LOAN VOLUME THREE YEARS EARLIER:



EXECUTIVE SUMMARY

The Default Problem

-- Defaults are not a problem among the traditional middle class four-year college students for whom the Guaranteed Student Loan program was primarily intended.

-- The majority of defaulters are low-income students. About three-quarters of New Jersey defaulters come from families with incomes under $15,000.

-- One-half of the New Jersey defaulters last year had never attended a college. They were students in proprietary school vocational training programs.

-- College graduates rarely default on their loans; college drop-outs do.

-- The typical defaulter is a poor, poorly prepared student who drops out of school before completing a program and, therefore, cannot get a job which pays enough to repay the loan.

-- Despite these disadvantages, 85% of all defaulters eventually repay their loans fully or partially after default.

The Reduction of Defaults in the New Jersey GSL Program

-- Default rates and the number of defaults have been declining for several years for loans guaranteed by the New Jersey Higher Education Assistance Authority (NJHEAA).

-- All New Jersey colleges and many proprietary schools began implementing default prevention programs in 1984-5; default rates started to decline for students who left school in 1985 and 1986.

-- Twenty-seven proprietary schools and three colleges with very high default rates were identified in December 1985 and have been or are in the process of GSL program audit reviews. Several have been suspended or limited from participation in the New Jersey GSL program; others have submitted plans for improving their operations in response to the audit findings.

-- The number of New Jersey Higher Education Assistance Authority (NJHEAA) defaults declined significantly in 1987, and defaults are expected to continue to decline for the next few years because loan volume has dropped sharply since 1984. The decline in NJHEAA loan volume is due both to new competition from multi-state national guarantors as well as new federal regulations which are severely restricting student loan eligibility.

-- National guarantors have taken over at least half of the New Jersey proprietary school loan volume during the last two years. All but four of the proprietary schools chosen for audit by the NJHEAA because of their high default rates are now using national guarantors; NJHEAA loan volume from these schools has dropped 90%. The U.S. Department of Education does not require other guarantors to recognize NJHEAA suspensions and limitations of schools from the GSL program. The rapid reduction of NJHEAA loan volume from schools with the highest default rates has been reflected in the overall decline in New Jersey program defaults.

-- The colleges and proprietary schools which continue to use the NJHEAA as the primary guarantor for their student loans have already reduced their default rates and are actively participating in the further reduction of defaults through the initiatives and recommendations detailed in this report. The U.S. Department of Education does not provide the data to assess what is happening at New Jersey schools which no longer guarantee loans through the NJHEAA.

Initiatives and Recommendations

-- Between 1983 and 1987 New Jersey had already taken a leadership role in default reduction through the funding of school default prevention programs, the development of a GSL Compliance Plan, and the initiation of program review audits of schools with very high default rates.

-- In 1988 many recommendations to the NJHEAA resulting from the Default Task Force discussions have already been implemented, including the distribution to schools of supplementary Student Status Confirmation Reports, exit interview lists, "action lists" of defaulters, institutional borrower profiles, and copies of the **Default Management Manual**.

Further recommendations to the NJHEAA for additional information to schools and assistance to students will be implemented later this year.

-- Recommendations to educational institutions are summarized under five categories which emphasize better use of available information, changes in institutional financial aid packaging and refund policies, more information and counseling for students, and more assistance to lenders and guarantors before and after default.

I. THE REDUCTION OF DEFAULTS IN THE NEW JERSEY GUARANTEED STUDENT LOAN PROGRAM

The basic facts are relatively simple: the volume of defaults and the default rates in the New Jersey Guaranteed Student Loan program increased until about 1984-1985, and then began to decline. The reasons for the initial increase and the recent decline, however, are complex and require an understanding of the changes in the New Jersey GSL program, the relationship of defaults to prior-year loan volume, and certain technical details about default rates.

Changes in the New Jersey GSL Program

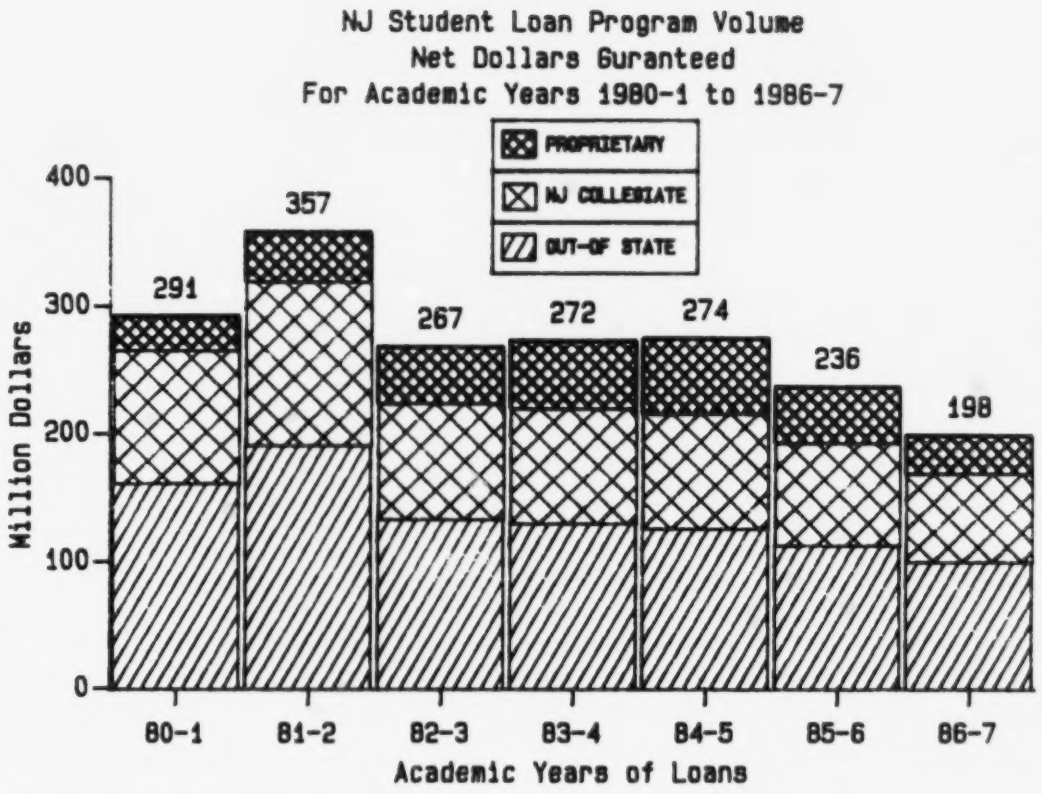
The Guaranteed Student Loan program was established in the 1960's to provide students with a source of loan funds to help finance their education. Because students normally have no credit histories or collateral, the state agencies guaranteed these loans against default in order to attract lenders to the program. The federal government reinsured the loans guaranteed by the state agencies and subsidized the entire interest accrued while the student was in school and a portion of the interest after the student had left school.

Although the GSL program grew throughout the 1970's, there was an enormous increase in loan volume between 1979-81. This was caused by a change in legislation (the Middle Income Student Assistance Act of 1978) which removed all income restrictions on GSL eligibility, followed by a period when commercial interest rates climbed to record highs. GSL loans became available to everyone and with their 7% interest rate represented a tremendous bargain to students and their families - and a rapidly growing cost to the federal budget. In order to contain these rising costs, income-based eligibility criteria were reimposed and interest rates were raised to 9% effective October 1, 1981. Announcement of the impending restrictions created one last surge in loan applications during the summer and fall of 1981 which made loan volume for academic year 1981-82 the largest in the history of the New Jersey program ($360 million).

There were no major changes in the GSL program regulations during the next six years. College undergraduates and vocational school students could borrow $2,500 per year for up to five years; graduate and professional students could borrow $5,000 per year up. All students with family incomes under $30,000 were eligible; for incomes over $30,000, there was a "need" test which was not as strict as that applied to other federal aid programs (assets and student savings were not considered).

Total New Jersey loan volume remained relatively stable (at about $270 million per academic year) for three years after the income restriction went into effect. Beneath this stability a major shift was taking place, however. The annual amount borrowed by in-state and out-of-state college students was shrinking (despite rising costs),

Figure 1


NJ Student Loan Program Volume
Net Dollars Guranteed
For Academic Years 1980-1 to 1986-7
PROPRIETARY
NJ COLLEGIATE
OUT-OF STATE
Million Dollars
400
300
200
100
0
291
357
267
272
274
236
198
80-1
81-2
82-3
83-4
84-5
85-6
86-7
Academic Years of Loans

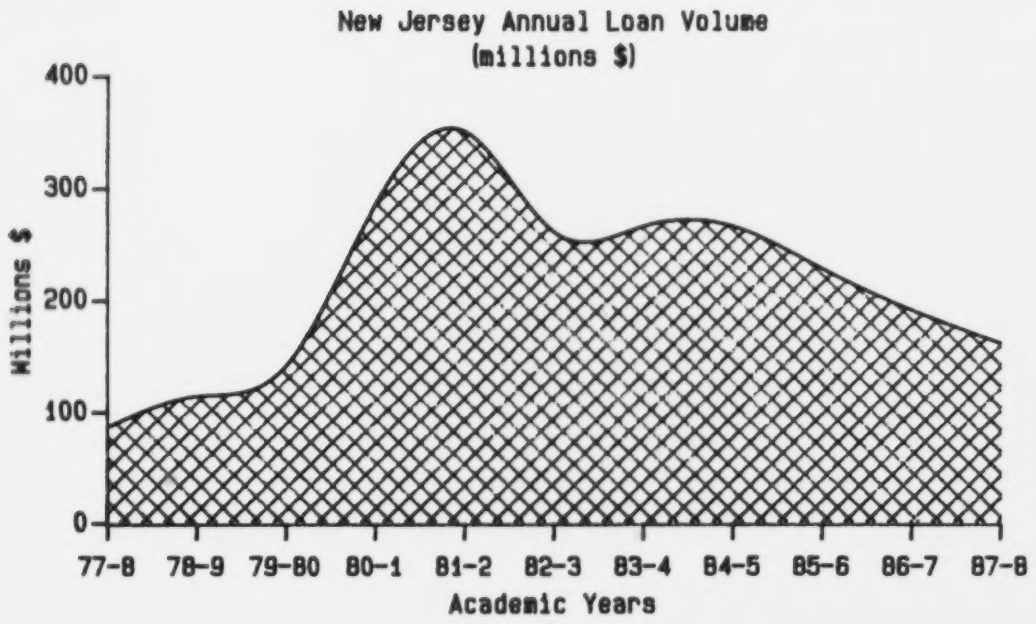
while the amount borrowed by New Jersey non-collegiate proprietary vocational schools was growing rapidly, from about $25 million in 1980-81 to a peak of $58 million in 1984-85 (Figure 1). This reflected both the success of proprietary schools in recruiting students as well as the slow erosion of middle class college student GSL eligibility through income inflation. (When the $30,000 income restriction was introduced in 1981, New Jersey median family income was about $27,000; in 1986 it was about $36,000).

Starting about 1985, the New Jersey GSL program began to feel the impact of a new development. Taking advantage of changes in interstate banking rules, several "national" guarantee agencies with multi-state operations began to compete actively with the state agencies. Between 1985 and 1987 the majority of state guarantee agencies, including the New Jersey Higher Education Assistance Authority (NJHEAA), experienced large declines in GSL loan volume, while the national guarantors increased their volume from about 5% to over 30% of the national total. New Jersey loan volume dropped $40 million in 1985-86, and another $40 million in 1986-87. NJHEAA proprietary school loan volume dropped in half during those two years, falling from $58 million in 1984-85 to $29 million in 1986-87.

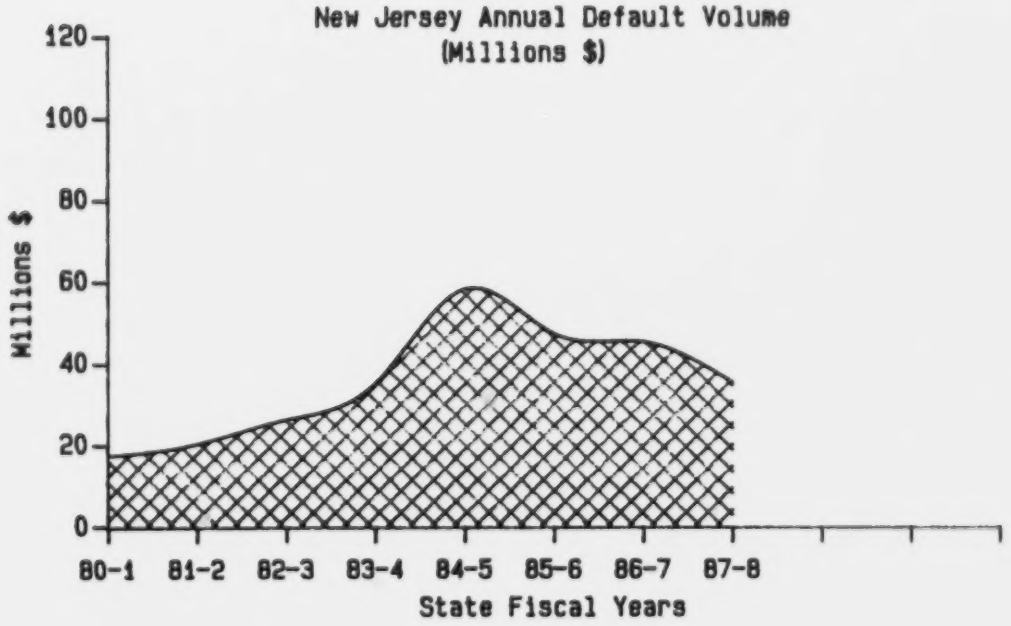
In addition, Reauthorization (the Higher Education Act Amendments of 1986) introduced a series of basic changes in the GSL program beginning at the end of 1986. First, annual borrowing limits were increased: to $2,650 for first and second year students, to $4,000 for juniors and seniors, and to $7,500 for graduate students. Second, the rules for defining "independent" or self-supporting students were changed so that anyone 24 or older and most graduate students would qualify (eligibility was then based on their own income, not their parents'). Third, all students, even those with family incomes under $30,000, were required to meet a needs test to remain eligible for GSL. Fourth, new and stricter needs tests were applied: through June 1988 the new criteria ("Uniform Methodology") added a contribution from assets and a student contribution from summer savings; after June 1988 the new "Congressional Methodology" will be used for all federal aid programs and will require additional contributions from students who earn more than $1,500 annually while in school.

The impact of the first phase of Reauthorization (1987-88) has been mixed. Graduate students have generally benefitted from expanded eligibility and higher loan limits. The effect on undergraduates has been more uneven: although average loan amounts have increased for those who continue to be eligible, about 20% of the undergraduate borrowers have lost their GSL eligibility entirely. The major impact has been on self-supporting students and middle-income dependent students at the lower cost public institutions. Although Reauthorization has contributed to the reduction of New Jersey loan volume by $30 million in 1987-88, we do not know how much of this is due to further gains by national guarantors. A further decline in loan volume of at least 10% is expected in 1988-9 as a result of the new needs test criteria.

Figure 2



DEFAULT VOLUME LAGS THREE YEARS BEHIND LOAN VOLUME



Default Volume and Loan Volume

In general, the annual volume (numbers or dollars) of defaults will follow the same pattern as the loan volume about three years earlier. The sharp increase in New Jersey loan volume from 1979 to 1981 was reflected in a rapid increase in defaults from 1982 to 1984; the decline in loan volume since 1984 has resulted in a decline in defaults since 1986. Annual declines in New Jersey defaults are certain to continue for the next few years, reflecting the recent annual decreases in loan volume (Figure 2).

The three-year average lag between loans and defaults is due to a combination of the typical borrowing pattern of students and the regulations of the GSL program. On the average students borrow two GSL loans, usually in consecutive years, which means that they are in school with loans for about 24 months. After they leave school, they are given a six month "grace" period before the loan matures and becomes due for repayment. If they never start paying after the end of the grace period, the lender is required to attempt to contact them for six months before a default claim may be submitted, and then it may take another few months to process and file with the guarantor. Therefore, on the average, about three years have passed between when the first loan was approved and the time that the default claim was paid.

Borrowers at community colleges and many proprietary schools typically remain in school for less than one year, so the average time between loan approval and default is only about two years. The graph of the broad sector distribution of defaults since 1980 shows that the proportion of defaults from the proprietary sector increased rapidly about two years behind the rapid increase in proprietary school loans. In 1986 and 1987 about 50% of the student defaults were from the proprietary sector, reflecting their peak year of loan volume through the NJHEAA in 1984-85 (Figure 3).

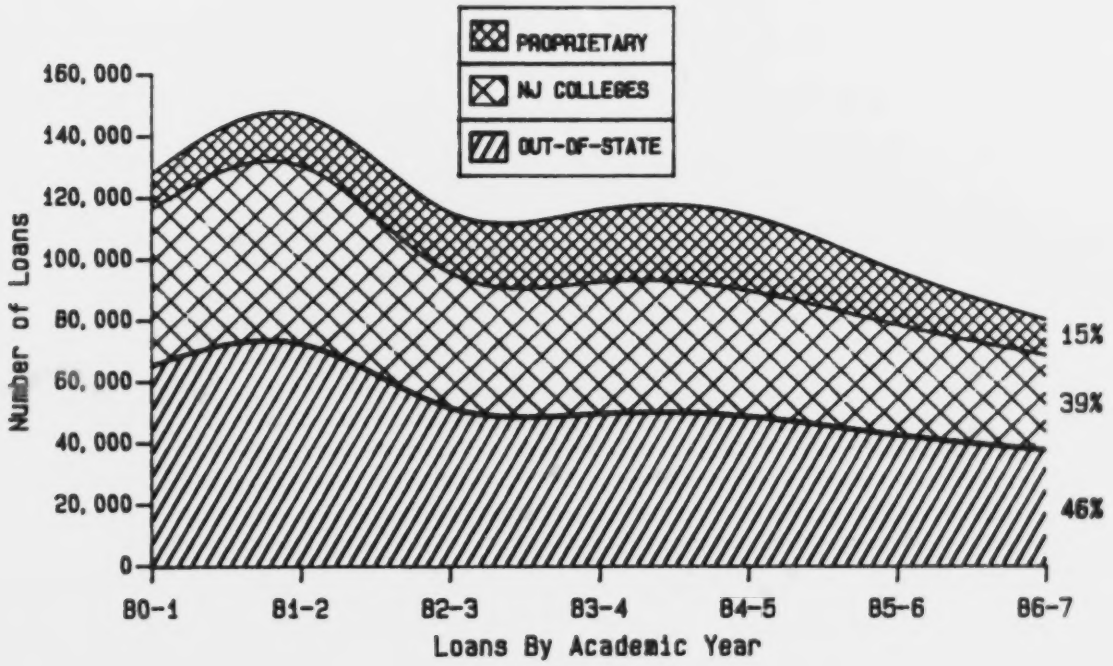
Default Rates

Although default volume generally follows the same pattern as loan volume about three years earlier, default rates are only based on those loans which have become due for repayment. Only after a student has left school and come to the end of the "grace" period when the loan becomes due for the first payment is the student "at risk" of default. About half of the defaults occur because the borrowers never start to make payments; the other half start their payments, but fall behind and become seriously delinquent. A time line showing the critical events affecting the status of a loan from the time the student leaves school until a default claim can be filed is in the appendix.

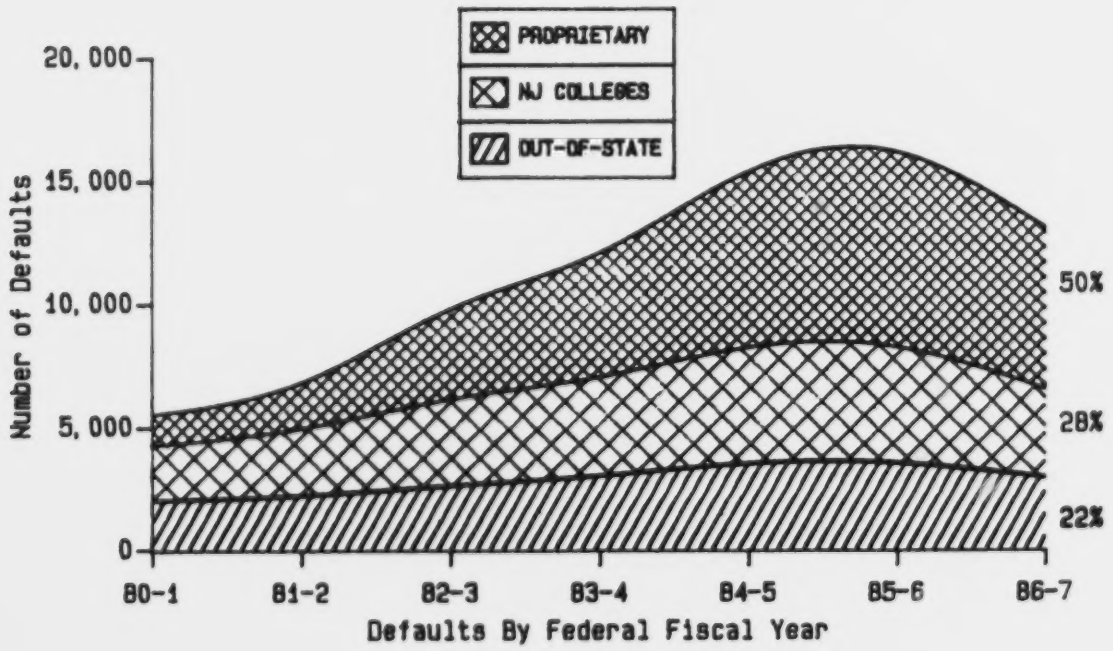
The fact that the number or dollar volume of defaults goes up does not mean that default rates, the proportion defaulting, have also gone up. In fact, New Jersey default rates did increase between 1980 and 1984. These increases were caused in part by changes in

Figure 3

New Jersey Guaranteed Student Loan Program
Number of Loans By Sector 1980 to 1987



New Jersey Guaranteed Student Loan Program
Number of Defaults By Sector 1980 to 1987



federal and state GSL program regulations. In October 1981, the "grace" period was cut from nine months to six months for students taking out their first loans. This meant that students had even less time to find a job and establish a steady income before the loan payments started. In the three years after 1981 the proportion of loans becoming due for repayment after a nine-month grace period dropped rapidly. Each year a larger proportion of the loans had to start repayment within six months, and it is not surprising that this caused default rates to increase, especially among students who had dropped out of school.

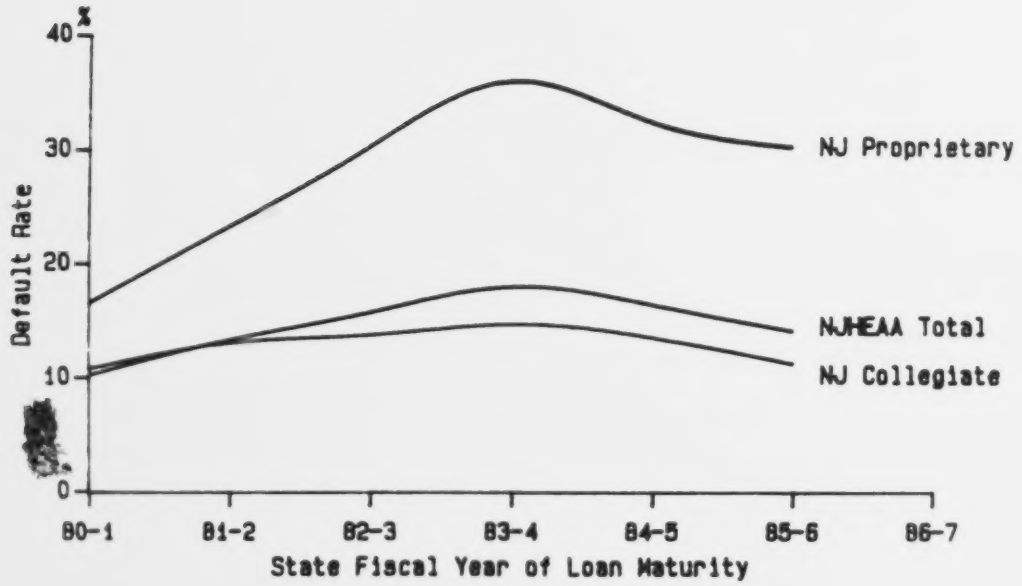
Most "default" rates are actually "claim" rates, because they are based on the number of default claims for reimbursement filed by lenders in a given year, rather than the number of loans that were declared legally in default that year. In 1984 the NJHEAA adopted stricter claim submission regulations which required lenders to file their default claims within three months after the default was declared as a legal condition. Before this lenders were averaging more than one year in processing default claims. These regulations caused a large increase in the number of claims received during the next two years as lenders processed defaults more quickly, and contributed to increases in the annual default rates in 1984 and 1985.

In 1986, on the other hand, federal regulations lengthened the amount of time that lenders were required to pursue delinquent loans from 120 to 180 days, so that the date of the legal condition of default was defined as coming two months later. This has contributed to the recent decline in default claims and default rates. In addition, in 1987 there was a great deal of uncertainty about the implementation of new regulations concerning "due diligence" procedures for lenders pursuing delinquent loans. To be on the safe side, guarantors interpreted the new rules strictly and rejected large numbers of default claims received from lenders. This also contributed to a temporary decline in the default rate, because many more defaults occurred than were accepted as claims. In 1988 the federal "due diligence" regulations were clarified and liberalized, so there may be a surge in defaults in the next few months as the backlog of rejected claims is reviewed and processed by the guarantors.

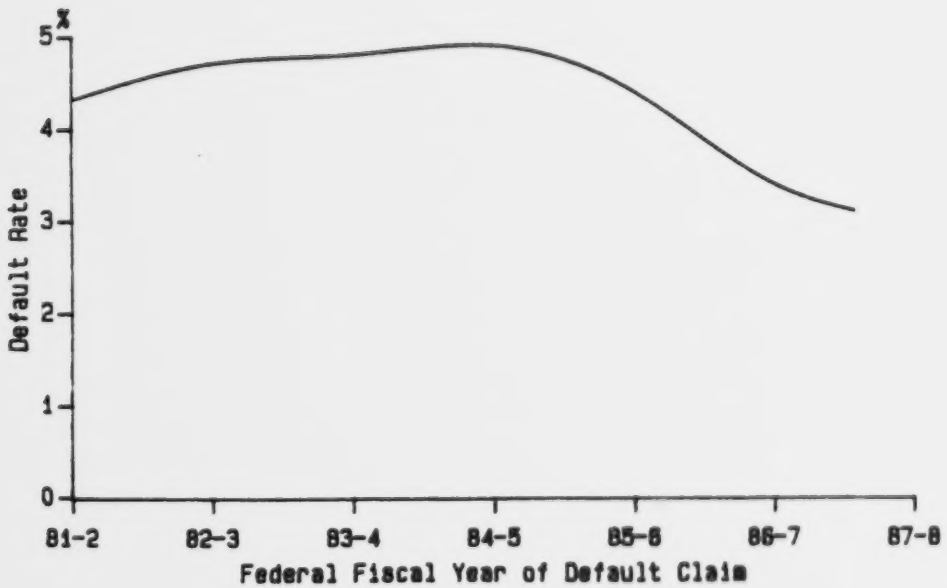
There are many different types of default rates and many different ways to calculate them. Some measure the percentage of <u>students</u> in default, others measure the <u>dollar</u> amount in default. The time period used can vary: <u>annual</u> rates measure the percentage defaulted in a twelve month period, <u>cumulative</u> rates measure the percentage that has ever defaulted. The longer the period of time covered, the higher the rates - normally cumulative default rates are three times as high as annual rates. The NJHEAA annual dollar default rate, which is used by the federal government to monitor guarantee agency performance, averaged between 4.3%-4.9% until federal fiscal year 1987 when it fell to 3.4%, partially for the reasons mentioned above (Figure 4). The cumulative dollar default rate - the percentage of all loan dollars that have ever defaulted since the beginning of the program - has remained fairly stable at about 13%. Cumulative rates reflect the

Figure 4

Second-Year Student Cohort Default Rates



Annual Dollar Default Claim Rate



entire history of the GSL program and are not very sensitive to recent changes.

In 1985 the NJHEAA started using annual student cohort default rates which measure the default behavior of a group of students whose loans become due for repayment during the same twelve month period (Appendix D). The New Jersey cohort rates were based on the legal date of the default condition, rather than the date the claim was filed by the lender, in order to eliminate the effect of changes in claim processing time. These student cohort default rates are a good way to measure actual changes in default behavior and to test whether changes in institutional procedures have had positive effects. They showed that default rates were rising after 1981 as more loans with shorter grace periods became due, and that there were much greater increases in default rates in the proprietary school sectors than in the collegiate sectors. The cohort of borrowers entering repayment in 1984-5 and 1985-6 started to show the first declines in default rates (Figure 4).

In November 1987 the U. S. Secretary of Education announced that the Department of Education was calculating two-year student cohort default rates to evaluate the GSL program of educational institutions. At that time the Secretary released institutional rates based on federal data for the cohort of students who entered the repayment period between October 1, 1984-September 30, 1985 and for whom a default claim had been filed by September 30, 1986 (i.e., within the next two years). Plans were announced to apply sanctions to any institution whose second-year cohort default rate was over 20% in federal fiscal year 1990. (That is, the default rate in September 1990 of those students whose loans became due for repayment between October 1, 1988 and September 30, 1989. This will include most students graduating or leaving school in the spring of 1988).

A few weeks after the Secretary's announcement, the Office of Student Loans provided all New Jersey schools with the federal rates for each annual cohort of students entering repayment since 1982-3. Because the federal student cohort rates are based on claim dates (rather than the legal date of default), they are not as reliable for measuring trends in behavior during the last few years when changes in "timely filing" and and "due diligence" regulations first shortened and then lengthened claim processing time. Nevertheless, the basic trends and the second-year default rate levels of the New Jersey and the federal method were similar (Figure 5). The delays caused by recent regulatory changes should have been worked out by October 1988, and the federal cohort default rate should provide a relatively reliable measure of the default behavior of students who recently left a school.

The Role of Schools

The fact that the default rates of students formerly enrolled in a school can be reliably measured does not address the issue of the extent to which schools are responsible for the defaults of their students. Schools cannot prevent an eligible student from borrowing,

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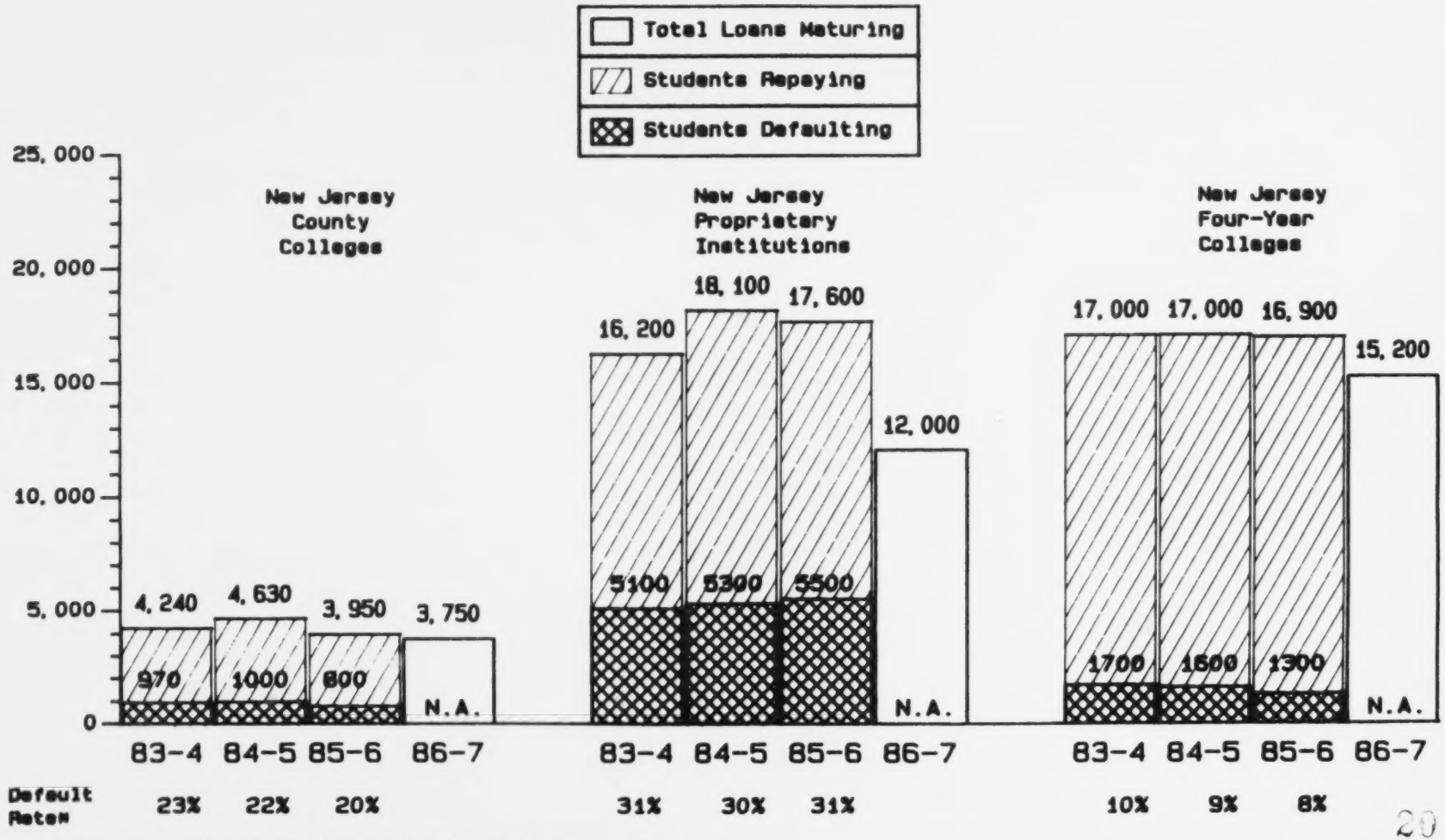
New Jersey Guaranteed Student Loan Program
Students Defaulting in the First Two Years After Entering Repayment By Federal FY



*PERCENT OF BORROWERS DEFAULTING WITHIN TWO YEARS AFTER THE LOANS BECOMES DUE FOR REPAYMENT. FY86-7 NOT AVAILABLE UNTIL OCT 1988.

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Figure 5

even if the student appears to present a high risk of default, and such students may have no other sources of financial aid available. Nor are schools a legal party in the loan agreement as in the Perkins (formerly NDSL) loan program. The many policy issues raised by the proposal to bar schools from all federal student aid programs on the basis of high default rates alone have been addressed by Chancellor Hollander in a letter to Secretary Bennett (Appendix G).

The NJHEAA addressed the issue of school responsibility for defaults in a Compliance Plan, adopted in 1986 following a preliminary GSL program review of New Jersey schools with very high default rates (Appendix G). The Compliance Plan established audit criteria in four areas, in addition to high default rates, where noncompliance indicated serious deficiencies in the proper administration of the GSL program. The areas of audit concern included inadequate refund policies and procedures, failure to provide timely notification to lenders of student enrollment status changes, inadequate maintenance of documentation, and high student withdrawal rates. Thirty schools have been reviewed or are scheduled for program audits according to these criteria. As a result of these reviews, several schools have been suspended or limited from participation in the New Jersey GSL program, while others have submitted plans for improving their operations in response to the audit findings.

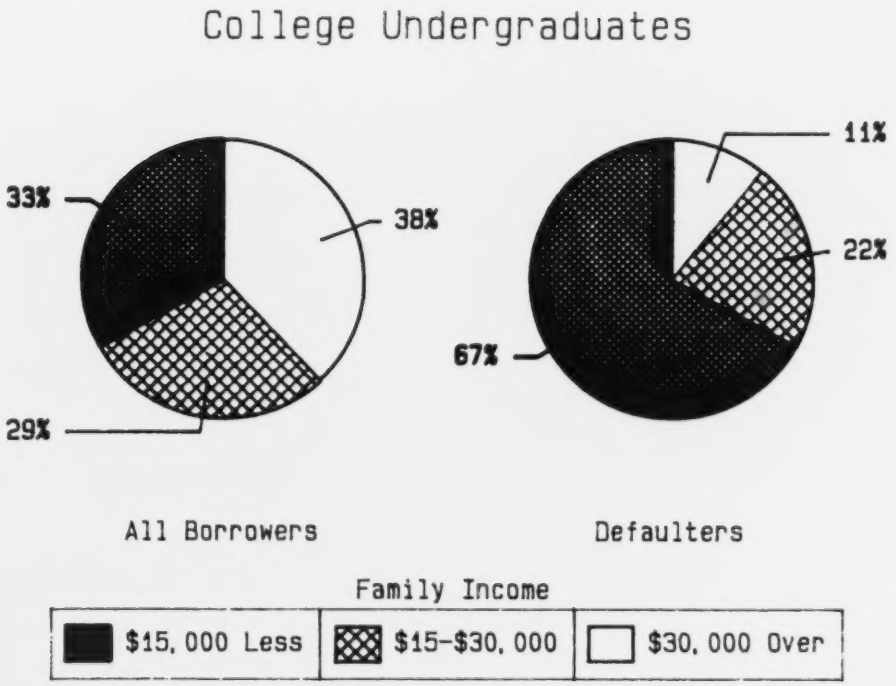
Many of the twenty-seven New Jersey proprietary schools selected for audit by the NJHEAA because of their high default rates, including those limited or suspended from the program, are now using national guarantors for their student loans. The U. S. Department of Education does not require other guarantee agencies to recognize NJHEAA sanctions. The rapid reduction of NJHEAA loan volume since 1985 from the schools with the highest default rates has been reflected in the overall decline in New Jersey program defaults. We do not know whether the default situation at these schools has improved, or whether the problem has merely been transferred to other guarantors, since the U. S. Department of Education does not provide agencies with statewide data.

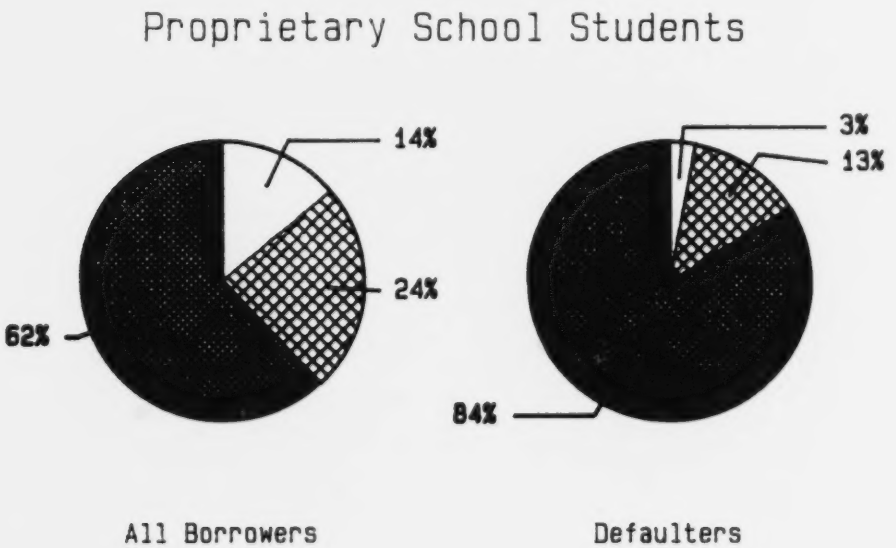
The colleges and proprietary schools which continue to use the NJHEAA as the primary guarantor for their student loans have been participating in formal default prevention activities at least since 1984, when the NJHEAA provided schools with funds for programs to reduce defaults. The decline in the default rates of the student cohorts whose loans became due for repayment in 1984-5 and 1985-6 indicates that these efforts have had some success. The initiatives and recommendations in this report are intended to maintain the momentum of the recent decline in New Jersey program defaults.

Characteristics of Defaulters

Appendix A, Sector Profiles, provides statistical profiles by sector of all GSL borrowers enrolled at New Jersey schools in the last five years. Along with this report, each New Jersey school will receive an individual profile with the same type of information, so that administrators may gain a better understanding of their past and

Figure 6


College Undergraduates
33%
38%
29%
All Borrowers
11%
22%
67%
Defaulters
Family Income
$15,000 Less
$15-$30,000
$30,000 Over


Proprietary School Students
14%
24%
62%
All Borrowers
3%
13%
84%
Defaulters

current student borrowers and to help identify the nature and extent of the default problem at their institution. Although the situation will vary according to the type of institution, the general characteristics of defaulters at New Jersey schools follow a common pattern that has been confirmed in many other studies.

-- Defaulters come from low-income families

   Three-quarters of the defaulters had family incomes under $15,000 when they took out their loans.

-- Over half of the defaulters are self-supporting students

   Most self-supporting or "independent" students have very low incomes, and include most of the older, non-traditional students who often have poor educational backgrounds.

-- Three-quarters of the defaulters spend one year or less in school and often do not complete their programs

   Over half of the defaulters attended proprietary vocational schools offering programs of less than one year; a large proportion of these did not complete the programs. Among college undergraduates, nearly half of the defaulters attended for one year or less.

-- Defaulters do not borrow large amounts

   Over three-quarters borrowed less than $3,000. Because most defaulters spend one year or less in school, they usually have taken out only one loan.

All of these characteristics are closely related. Low-income students are more likely to have poor educational backgrounds, more likely to attend open access community colleges or proprietary vocational schools which offer shorter programs, and more likely to leave school without completing the program but carrying with them a student loan debt for which repayment must begin within six months. One of the basic problems is summarized in Figure 6, which shows that there is a striking similarity of the income distribution of college defaulters and the income distribution of all proprietary school borrowers.

The same patterns emerge in terms of default rates. The rates shown are five-year cumulative rates which summarize the data for this particular population of students and allow for comparisons among student characteristics. Five-year default rates have no particular significance, but the level of these rates is usually similar to the federal two-year cohort default rates.

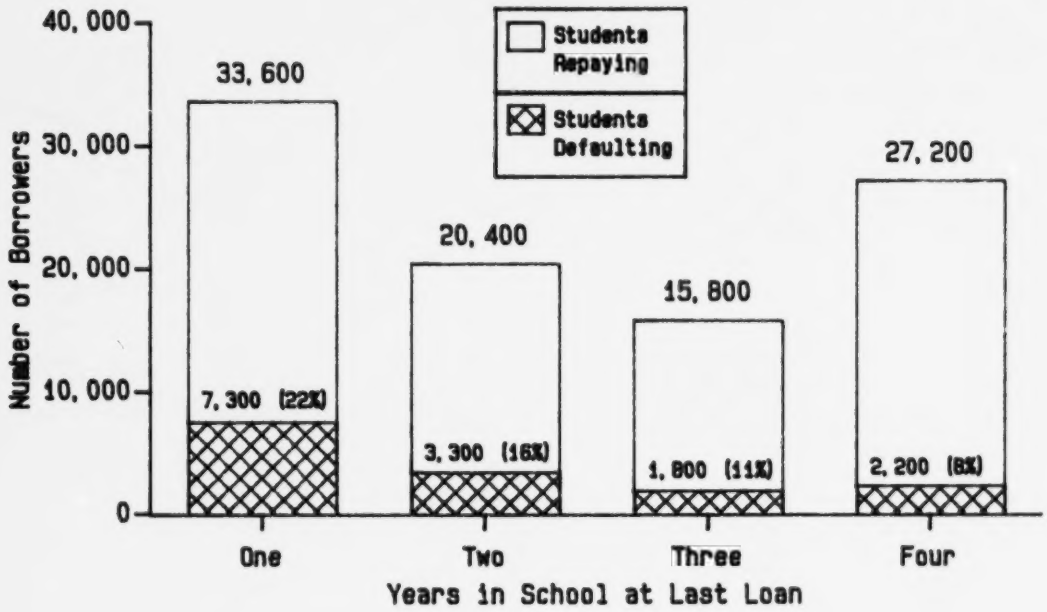
The default rates show the same patterns discussed above. About one-third of the borrowers with family incomes under $15,000 default, compared to only 5% of those with incomes over $30,000. About one-third of those who are in school for one year or less

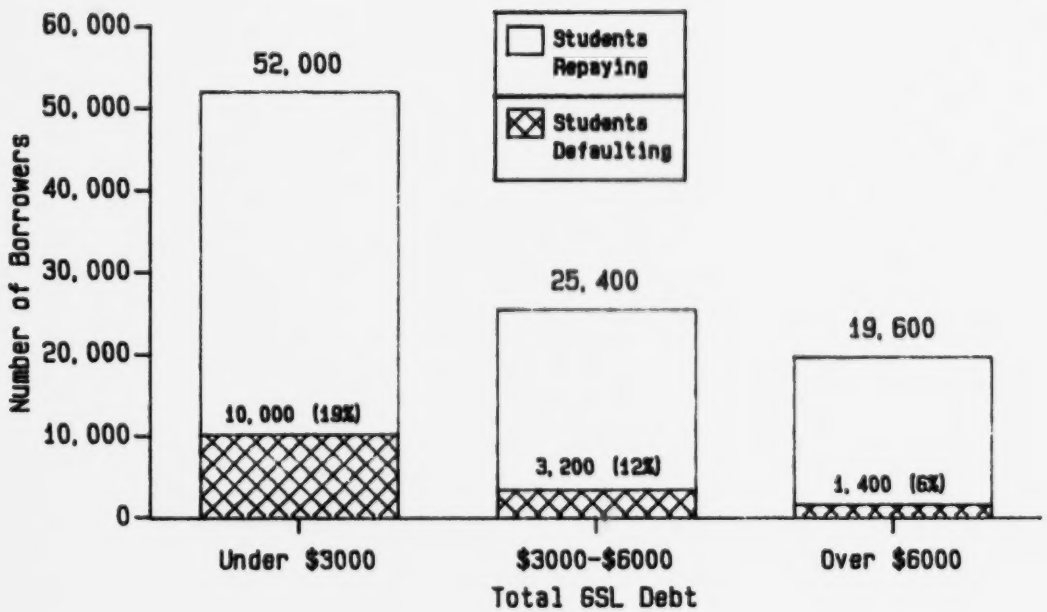
Figure 7

Default Rates By Class Level and Amount of Debt

New Jersey Undergraduate GSL Borrowers 1983-7

(Five Year Cumulative Default Rates)





default, compared to 8% of those who complete four years of college. The concern about large debt burdens leading to increased defaults is not supported by the evidence: only 6% of those borrowing over $6,000 default, compared to one-quarter of those borrowing less than $3,000 (Figure 7). Larger debt levels indicate more years of successful completion of higher education; more years of education generally means a lower probability of default.

Appendix B, Sector Comparisons, provides some direct sector comparisons of default rates and borrower characteristics. It is quite clear that schools with higher proportions of low-income borrowers also have higher default rates.

The Role of the Lenders

Although the focus of this report is what schools can do to prevent defaults, it is in fact the lender who has the critical role and responsibility after the student leaves school. The lender must contact the student and establish a loan payment schedule during the "grace" period, meet strict federal "due diligence" requirements for contacting borrowers when payments are delinquent, grant borrowers opportunities for deferments and forbearance, and make the determination that the loan is in default. The NJHEAA pre-claim staff provides assistance to lenders during the delinquency period by also contacting and providing information to borrowers with letters and telephone calls. The steps in the process and lender requirements are detailed in Appendix E.

There is a general concern in the financial aid community that many lenders have become too removed from students in the loan process. Most students never have any personal contact with their lender. When the loan is taken out, the entire application process is usually by mail to a central office rather than a personal application at a branch. When repayment time comes, the original lender often no longer holds or services the loan, and students must deal with distant loan servicers or the Student Loan Marketing Association (SLMA) who have taken over the lender's role and responsibility for collecting payments.

We do not know whether the increasingly distant and indirect role of the lenders has contributed to defaults, but it has certainly created new communication problems. Because of the many bank mergers, the use of loan servicers, and the sale of loans to SLMA, the calculation of meaningful lender default rates presents a difficult problem. Studies by the Office of Student Loans have only been able to show that very small lenders have very low default rates, while the default rates of the larger lenders vary within a very narrow range and do not exhibit the large differences found among schools.

Collection Activity and Repayment After Default

After the lender has filed a default claim with the NJHEAA because a student borrower has failed to comply with regulations or

make the required loan payments, the NJHEAA attempts to contact the borrower and reestablish payments. In many cases the NJHEAA is successful: the defaulted account goes into repayment and after ten years, half of the accounts are eventually paid in full. If the NJHEAA is unsuccessful in getting the account into repayment or the borrower stops paying, the account may be sent to an attorney for outside collection. The attorneys will make further attempts to collect the debt, which may include litigation. New federal regulations require all defaulted accounts not in repayment within a certain amount of time to be assigned for litigation. Accounts which have been assigned to outside collection are no longer directly handled by the NJHEAA and all payments are forwarded to the attorneys.

Default does not remove the obligation to repay the debt, but it does shift the responsibility for collection from the lender to the guarantor. The default remains on the borrower's credit history for seven years, even if it has been paid in full. Despite this, lenders routinely check with the NJHEAA about the default repayment status of applicants for home mortgages, and they may extend credit if there is a good record of post-default repayment. On the other hand, unpaid accounts that are assigned to outside collection often have a collection fee added to the amount owed (up to 30%) and the defaulter may ultimately be forced to pay the increased amount by court order. This is a situation that we all want to prevent.

The repayment status of a defaulted account may change several times if a borrower stops and then resumes payment, but there are some common payment patterns directly related to the age of the account (see Appendix C). The majority of those that defaulted recently (in 1987 or 1988) have still made no payments, since whatever problem caused the default is unlikely to have been resolved in less than a year. For accounts that defaulted two years ago, about one-third are now in regular repayment, one-third paying intermittently, and one-third still have made no payments. Most defaults that occurred three or more years ago and made no payments will have been assigned to outside collection, and about half of these will be brought into repayment.

Because it takes a long time to pay off a loan, it is not the repayment status of recent defaults but those that defaulted over ten years ago which gives the best picture of the eventual repayment pattern of defaults: about 45% have paid the debt in full, 40% have made partial payments, and only 15% have never paid anything.

II. INITIATIVES AND RECOMMENDATIONS

NEW JERSEY DEFAULT PREVENTION INITIATIVES FROM 1983-1987

1983 -- The Office of Student Loans sponsored a seminar on default trends for the New Jersey Association of Student Financial Aid Administrators. Differences in default rates by sector and characteristics of defaulters were explained. Materials for exit interviews were distributed.

1983-7 -- The NJHEAA provided funds to New Jersey schools through the School Remuneration Program to establish default prevention programs (Federal restrictions on the use of reserve funds do not permit continuation of this program).

1984-5 -- Most New Jersey schools developed and started to implement default prevention plans.

1985 -- The Office of Student Loans developed the methodology for measuring student cohort default rates to evaluate the effect of the default prevention programs. Although it was too early to see any significant default rate decreases, the analysis indicated a trend of rising default rates in the proprietary school sectors.

1986 -- Three colleges and 27 proprietary schools with unusually high default rates were identified and preliminary reviews of their programs were carried out by NJHEAA and Department of Education staff.

-- The results of the preliminary reviews indicated that common problems were high student withdrawal rates, inadequate refund procedures, poor documentation and recordkeeping, and failure to provide lenders with timely notification of student enrollment status changes. These were summarized in A Plan to Assess Guaranteed Student Loan Program Compliance and Initiate Appropriate Corrective Measures which was adopted by the NJHEAA in September 1986.

-- Commissioner of Education Cooperman proposed new regulations increasing state supervision of proprietary schools, including requirements to test basic skills proficiencies of students, establish equitable refund policies, and clearly explain student loan obligations.

-- The Department of Higher Education's Management Compliance Unit began to audit the New Jersey schools with high default rates using the criteria in the

Compliance Plan to assure the proper administration of the GSL program.

1987 -- Audits of 16 schools were completed resulting in eight limitations or suspensions from the NJHEAA program. Requests to the U.S. Secretary of Education to extend the NJHEAA sanctions to GSL activity with other guarantors were denied.

-- The U.S. Secretary of Education announced a proposal to restrict schools with high default rates from federal student aid programs. The proposal was basically similar to the New Jersey plan, but without the safeguards for schools. The Office of Student Loans revised its methodology for calculating student cohort default rates according to the federal proposal and published the rates for all New Jersey schools shortly after the announcement.

-- Chancellor of Higher Education Hollander publicly expressed both his support for and his reservations about the Secretary's proposal and began active participation in a SHEEO committee to develop a national default prevention policy.

-- The Office of Student Loans participated in the Default Management Workshops sponsored by the National Association of Trade and Technical Schools and the Association of Independent Colleges and Schools. The **Default Management Manual** discussed at this conference as well as a video of the workshop will be distributed to New Jersey schools.

-- A Default Task Force was formed by representatives of the Department of Higher Education and NJASFAA.

INITIATIVES BY THE DEFAULT TASK FORCE IN 1988

The following initiatives which resulted from the discussions of the NJASFAA/DHE Default Task Force have already been implemented in 1988:

-- Supplemental Student Status Confirmation Reports were sent to schools in February for completion on a voluntary basis. A majority of schools returned the reports, allowing for more timely updating of NJHEAA and lender records. Prompt notification of withdrawals is extremely important in preventing defaults. In the future the NJHEAA will issue status confirmation reports on a quarterly basis to supplement semi-annual reports required by federal regulation.

-- Exit Interview Lists of all borrowers expected to graduate this spring were sent to all New Jersey schools in March

and April. These lists include all students with NJHEAA loans, the amount of the loans and the lenders. Although these lists have been available on request, not all schools were aware of this service.

-- Lists of all NJHEAA loan defaults were prepared for each New Jersey school after considerable discussion of the appropriate format and information to be supplied. An "Action List" was prepared of defaults that are not making regular payments to the NJHEAA with forms for schools to supply current address information. A second "Cumulative Reference List" of all prior defaults indicating the current status of the account was also provided for information purposes.

-- Institutional GSL Borrower Profiles were prepared for every New Jersey school. These profiles contain data on the distribution of borrowers and defaulters by income, dependency status, class level and size of debt. They also provide information on average debt levels and differences in default rates. The information in the institutional profiles may be compared to the sector averages published in this report.

-- The NJHEAA provided funds to purchase one hundred copies of the **Default Management Manual** for distribution to members of NJASFAA who had not already received copies through their sector associations. The **Manual** was prepared by the Career Training Foundation for a consortium of proprietary schools, and it provides an excellent source of information and ideas for all types of institutions.

-- A special session was planned at the NJASFAA spring conference for the discussion of this report.

RECOMMENDATIONS FOR THE NJHEAA

-- Provide schools with individualized exit interview reports for each student listing the amount due, the lender, and the anticipated monthly payments as well as general information about options for deferment, forbearance and consolidation.

-- Advise schools of regulatory changes which should be incorporated into exit interview materials and of brochures and other publications available for use in exit interviews.

-- Create an "ombudsman" position to help students resolve communication problems with lenders and servicing agencies.

-- Establish a toll-free (800) number for pre-claim and default assistance to students located out-of-state.

-- Notify schools of delinquent borrowers during the pre-claim period before they go into default.

-- Work with the Loan Advisory Committee to review the effectiveness and ease of comprehension of the information on deferment and forbearance mailed out during the delinquency period.

-- Provide schools with regular reports on their default rates calculated according to the criteria established by the federal government.

RECOMMENDATIONS FOR EDUCATIONAL INSTITUTIONS

(1) GENERAL INFORMATION AND IDEAS:

--Use the **Default Management Manual**

The first five chapters of the **Default Management Manual** prepared by the Career Training Foundation provide thirty pages of concise, well-written information about defaults and practical ideas for administrative improvements which will help prevent them. Chapters 3-5 on School Action, Default Prevention and a Model Program summarize all of the best ideas for institutional initiatives and should be used as a guide to review your own program. Section 6 is a bulky but complete package of information for students, and the rest of the Manual consists of appendices with summaries of current GSL regulations and model forms and letters.

--Study Your GSL Borrower Profile

The general characteristics of defaulters are well known - they are low-income, take out only one loan, and do not finish their programs. This pattern is typical, but there are many differences among institutions. The profiles prepared for each school allow for a comparison of defaulter characteristics to those borrowers still in school and show which categories of students have had the highest risk of default at your institution. These should be compared to the sector averages published in this report to identify problems particular to your school. If you need more detail or a different breakdown, contact the Office of Student Loans.

(2) BROAD INSTITUTIONAL POLICIES

--Review Your Financial Aid Packaging Policy

Develop in-house packaging parameters for the distribution of student aid that are sensitive to high risk students. The two target populations at most colleges would be low income students and first year students. Schools could, for example, designate these two populations to receive increased grant and/or work amounts as opposed to packaging them with loans. Take advantage of the higher GSL loan amounts now available to juniors and seniors to shift grant dollars to lower-division students. These options will obviously be limited by the amount of aid funds available and the type of institution.

--Request an Administrative Review of Refund Policies

Develop refund procedures that are sensitive to students who withdraw, especially those students who withdraw early in the school year. More liberal refund policies may get little support from those responsible for school revenues, but the equity and fairness of these policies should be addressed. Develop a policy of allocating the

refunded amounts which must be returned to federal aid programs so that the refunds are assigned first to pay off loans.

(3) INFORMATION FOR STUDENT BORROWERS

--Recommend Responsible Lenders and Guarantee Agencies to Students

Lenders that provide quality service, are responsive to students, and have a good communication system are more likely to be helpful to students when repayment time comes. Students who encounter problems with unresponsive service agencies should be referred to the original lender or the NJHEAA pre-claim unit for assistance (telephone: 609-588-3232). The financial aid office should help students make an informed choice of lender and guarantee agency, but obviously should not restrict students in their choice. It is important that the student knows who the lender is and how to get in contact. Encourage students to stick with one lender.

--Establish an Entrance Interview and Loan Counseling Process

One of the most serious flaws in the current GSL program is that there may be no personal contact between the lender and the borrower. Although it is not required by regulation, schools with high default rates should consider establishing entrance interviews which perform this function. For drop-outs, who represent one of the highest default risk groups, an entrance interview may be the only time that any face-to-face contact occurs in the student loan process. There are many good ideas on entrance interviews in the **Default Management Manual**.

--Improve the Exit Interview and Information Packet

Exit interviews (and informational mailings to those who do not attend) are now a required part of the GSL program. These should emphasize the student's "ownership" of the loan, review the amount of indebtedness, monthly payments and repayment options, and include information on consolidation, refinancing, deferment and forbearance. Chapter 6 of the **Default Management Manual** provides a complete packet of information which schools can tailor to their own use.

(4) ASSISTANCE TO LENDERS AND GUARANTORS BEFORE DEFAULT

--Give Prompt Notification of Changes in the Student's Status

The NJHEAA is now issuing quarterly student status confirmation reports to provide more frequent updates of changes in enrollment, address, name, and graduation dates. The "expected graduation date," which has little practical significance to schools, is a critical information item for lenders and guarantors. If a student withdraws the withdrawal date replaces the expected graduation date. This date determines the beginning and end of the student's six month "grace"

period, and is used to trigger a series of informational letters about repayment. The financial aid office should make sure that "expected graduation dates" are updated either in the confirmation status procedure or from the exit interview lists. Any changes reported to the NJHEAA will automatically be reported to the lenders, but the reverse is not always true.

--Assist Lenders and Guarantors During the Delinquency Period to Prevent Defaults

Many defaults are preventable if caught in the early stages because many students would qualify for deferment or forbearance when their loans first become due. These kinds of defaults are really unnecessary. The NJHEAA will soon be providing schools with the names of students when payments are 120 days delinquent and entering the final sixty day period before default. The important things to communicate to students at this point are that deferment and forbearance are only available before default and that contact with the lender or guarantor must be made immediately.

(5) ASSISTANCE AFTER DEFAULT

--Understand the Complexities of Default

All "defaults" are not the same. Some have been legitimately discharged because of disability, death or bankruptcy; many of the older accounts have already been paid off; some are in the process of litigation or under court orders; many are already making regular payments to the NJHEAA. Such defaulters should not be contacted by schools, and this is clearly indicated on the "Cumulative Reference Lists" being provided. **The only types of default cases in which school intervention can be helpful are those on the "Action List"** prepared for each school which indicates recent defaults who are not making regular payments to the NJHEAA.

--Keep the Guarantor Informed of the Most Current Information on the Home Address and Place of Employment of Defaulters

Over half of the defaulters eventually pay off their debt, but this requires frequent contact. The major form of assistance that institutions can provide is to notify the guarantor of information on current home addresses and places of employment. The NJHEAA is providing institutions with "Action Lists" which indicate those defaulted accounts for which updated information would assist in the collection process.

--Identify Students on the Action Lists in Administrative Records

The NJHEAA should be informed whenever they contact the school. Procedures should be established which require these students to contact either the financial aid office or the NJHEAA before releasing a transcript. We do not recommend that transcripts be

permanently withheld. The legality of this is uncertain and schools have been successfully sued for doing it.

--Some Schools May Wish to Write Students About Their Default Situation

Schools should decide for themselves whether this is a practical and potentially helpful approach for their institution. The most important advice to give students is that they should stay in contact with the NJHEAA and maintain their repayment schedule in order to avoid further credit problems, loss of federal and state income tax refunds, federally mandated litigation, and substantial collection fees. Students should be advised to telephone the Default Unit at (609) 588-3309.

APPENDIX

A. Sector Profiles of GSL Borrowers at New Jersey Schools, 1983-87

B. Sector Comparisons of Undergraduate Borrower Characteristics and Default Rates

C. Repayment Patterns After Default

D. Student Cohort Default Rates

E. Default Time Line Chart and Lender Due Diligence Requirements

F. The New Jersey GSL Compliance Plan

G. Letter from Chancellor Hollander to Secretary Bennett Concerning Student Loan Default Policy

APPENDIX A

Sector Profiles of GSL Borrowers at New Jersey Schools 1983-87

General	Table #
New Jersey Total - All Schools	1
New Jersey Collegiate Total	2
Undergraduates only	3
Graduate and Professional	4
New Jersey Proprietary Schools and Hospitals	5
Sectors	
County Colleges	6
State Colleges	7
Public Universities	8
Independent Colleges and Universities	9
Business and Secretarial Schools	10
Trade and Technical Schools	11
Cosmetology Schools	12
Hospital and Nursing Schools	13

The attached tables provide a profile of all students attending New Jersey schools during the five years between January 1983 and December 1987, who borrowed a Guaranteed Student loan through the New Jersey Higher Education Assistance Authority. Similar profiles have been prepared for each New Jersey school. A comparison of the individual school profiles with the sector averages shown in these tables should give school administrators a better understanding of the particular characteristics of student borrowers and defaulters at their institution.

The row categories on the tables are:

(I) Family Income

This was not reported for loans approved prior to October 1981.

(II) Dependency Status

Not reported for loans approved prior to October 1981. The majority of self-supporting ("independent") students have incomes under $15,000.

(III) Total GSL Debt

(IV) Years in School at Last Loan

Normally this is the same as the number of years attended. One year means one year or less.

The columns show different categories of borrowers (status at the end of December 1987) and the distribution of known cases within the row categories of income, dependency, debt level, and class level. The borrower categories:

-- Total Borrowers In School or Grace Period in December 1987
-- Total Borrowers Out of School Whose Loans are Due for Repayment

(A) Fall 1987 Loans - Students who borrowed in the fall of 1987.

(B) Prior Year Loans - Students in school or in the six-month grace period who had borrowed in prior years, but not in fall 1987.

(C) Paying Lenders - Students who have entered the repayment period and are meeting their payment obligations.

(D) Loan Defaults - Students who were in school at any time during 1983-7 who had defaulted by December 1987.

The five-year cumulative student default rate in the last column refers only to the last two categories: it is the number of defaults divided by the total number out of school and due for repayment during 1983-7. That is, it represents the proportion of all borrowers who left school since January 1983 and defaulted before the end of 1987. This rate has no particular significance - it is merely a convenient summary of the data on the table and allows for comparisons. For most schools, however, this five-year rate will be about the same as the federal two-year cohort rate.

NEW JERSEY GUARANTEED STUDENT LOAN PROGRAM

PROFILE OF GSL BORROWERS AT NEW JERSEY SCHOOLS 1983-87
SECTOR PROFILES

OSA RESEARCH: LKB

NEW JERSEY TOTAL - ALL SCHOOLS Table 1	NUMBER OF BORROWERS AND %				NUMBER OF BORROWERS AND % OF KNOWN CASES								5-YEAR STUDENT DEFAULT RATE (D)/(C+D)
	IN SCHOOL		OUT OF SCHOOL		IN SCHOOL OR GRACE				OUT OF SCHOOL / DUE				
	TOTAL BORROWERS		TOTAL BORROWERS		(A) FALL 1987 LOANS		(B) PRIOR YEAR LOANS		(C) PAYING LENDERS		(D) LOAN DEFAULTS		
	N	%	N	%	N	%	N	%	N	%	N	%	RATE
(I) FAMILY INCOME													
UNDER $15,000	19,506	35	68,672	48	10,182	42	9,324	30	43,254	39	25,418	78	37%
$15 -$30,000	15,298	28	38,802	27	6,674	28	8,622	28	33,541	31	5,261	16	13%
OVER $30,000	20,514	37	34,797	25	7,217	30	13,297	43	32,931	30	1,866	6	5%
UNKNOWN	1,504	.	32,399	.	587	.	917	.	26,816	.	5,583	.	17%
TOTAL	56,820	100	174,670	100	24,660	100	32,160	100	136,542	100	38,128	100	21%
(II) DEPENDENCY													
SELF-SUPPORTING	16,431	30	56,208	40	8,642	36	7,789	25	37,804	35	18,404	57	32%
DEPENDENT	38,307	70	84,895	60	15,089	64	23,218	75	71,083	65	13,812	43	16%
UNKNOWN	2,082	.	33,567	.	929	.	1,153	.	27,655	.	5,912	.	17%
(III) TOTAL DEBT													
UNDER $3000	30,989	55	110,826	63	12,085	50	18,904	59	79,463	57	31,363	84	28%
$3000-$6000	14,646	26	35,791	19	6,381	26	8,265	25	30,981	22	4,810	11	13%
OVER $6000	11,185	19	28,053	18	6,194	24	4,991	15	26,098	21	1,955	5	6%
(IV) YEARS IN SCHOOL AT LAST LOAN													
1	23,056	41	88,354	51	9,264	38	13,792	43	60,568	44	27,786	75	31%
2	12,514	22	28,471	15	5,202	22	7,312	23	23,285	16	5,186	12	18%
3	8,648	15	17,731	9	3,821	16	4,827	15	15,734	10	1,997	4	11%
4	6,725	12	28,103	19	3,572	15	3,153	10	25,810	22	2,293	6	8%
GRADUATE	5,877	9	12,011	6	2,801	9	3,076	9	11,145	8	866	2	7%
TOTAL	56,820	100	174,670	100	24,660	100	32,160	100	136,542	100	38,128	100	21%

NEW JERSEY GUARANTEED STUDENT LOAN PROGRAM

PROFILE OF GSL BORROWERS AT NEW JERSEY SCHOOLS 1983-87
SECTOR PROFILES

OSA RESEARCH:LKB

NEW JERSEY COLLEGIATE TOTAL	NUMBER OF BORROWERS AND %				NUMBER OF BORROWERS AND % OF KNOWN CASES								5-YEAR STUDENT DEFAULT RATE (D)/(C+D)
	IN SCHOOL		OUT OF SCHOOL		IN SCHOOL OR GRACE				OUT OF SCHOOL / DUE				
Table 2	TOTAL BORROWERS		TOTAL BORROWERS		(A) FALL 1987 LOANS		(B) PRIOR YEAR LOANS		(C) PAYING LENDERS		(D) LOAN DEFAULTS		
	N	%	N	%	N	%	N	%	N	%	N	%	RATE
(I) FAMILY INCOME													
UNDER $15,000	13,708	31	28,692	36	6,687	37	7,021	26	21,639	32	7,053	67	24%
$15 -$30,000	12,355	28	23,782	30	5,050	28	7,305	27	21,419	31	2,363	22	9%
OVER $30,000	18,338	41	26,477	34	6,072	34	12,266	46	25,339	37	1,138	11	4%
UNKNOWN	1,413	.	30,095	.	554	.	859	.	25,087	.	5,008	.	16%
TOTAL	45,814	100	109,046	100	18,363	100	27,451	100	93,484	100	15,562	100	14%
(II) DEPENDENCY													
SELF-SUPPORTING	11,214	26	24,772	32	5,472	31	5,742	22	19,525	29	5,247	50	21%
DEPENDENT	32,737	74	53,607	68	12,065	69	20,672	78	48,386	71	5,221	50	9%
UNKNOWN	1,863	.	30,667	.	826	.	1,037	.	25,573	.	5,094	.	16%
(III) TOTAL DEBT													
UNDER $3000	22,599	50	54,191	44	7,575	42	15,024	55	43,935	41	10,256	63	18%
$3000-$6000	12,592	28	28,616	26	4,947	28	7,645	28	25,131	27	3,485	23	12%
OVER $6000	10,623	22	26,239	30	5,841	30	4,782	17	24,418	32	1,821	15	6%
(IV) YEARS IN SCHOOL AT LAST LOAN													
1	14,910	33	33,613	26	4,887	27	10,023	37	26,208	23	7,405	43	22%
2	10,399	23	20,392	17	3,717	21	6,682	24	17,090	16	3,302	20	16%
3	8,097	18	15,603	14	3,483	20	4,614	17	14,021	14	1,782	11	11%
4	6,531	14	27,266	32	3,475	19	3,056	11	25,055	35	2,211	19	8%
GRADUATE	5,877	12	11,972	11	2,801	13	3,076	11	11,110	12	862	6	7%
TOTAL	45,814	100	109,046	100	18,363	100	27,451	100	93,484	100	15,562	100	14%

NEW JERSEY GUARANTEED STUDENT LOAN PROGRAM

PROFILE OF GSL BORROWERS AT NEW JERSEY SCHOOLS 1983-87
SECTOR PROFILES

OSA RESEARCH:LKB

NJ UNDERGRADUATE COLLEGE TOTAL	NUMBER OF BORROWERS AND %				NUMBER OF BORROWERS AND % OF KNOWN CASES								5-YEAR STUDENT DEFAULT RATE (D)/(C+D)
	IN SCHOOL		OUT OF SCHOOL		IN SCHOOL OR GRACE				OUT OF SCHOOL / DUE				
Table 3	TOTAL BORROWERS		TOTAL BORROWERS		(A) FALL 1987 LOANS		(B) PRIOR YEAR LOANS		(C) PAYING LENDERS		(D) LOAN DEFAULTS		
	N	%	N	%	N	%	N	%	N	%	N	%	RATE
(I) FAMILY INCOME													
UNDER $15,000	11,094	28	24,789	35	5,173	33	5,921	25	18,180	30	6,609	66	26%
$15 -$30,000	11,048	28	20,748	30	4,567	30	6,479	27	18,542	31	2,208	22	10%
OVER $30,000	17,107	44	24,498	35	5,743	37	11,384	48	23,386	39	1,112	11	4%
UNKNOWN	690	.	27,039	.	79	.	611	.	22,266	.	4,773	.	17%
TOTAL	39,937	100	97,074	100	15,562	100	24,375	100	82,374	100	14,700	100	15%
(II) DEPENDENCY													
SELF-SUPPORTING	7,726	20	18,902	27	3,660	24	4,066	17	14,169	24	4,733	48	25%
DEPENDENT	31,162	80	50,719	73	11,622	76	19,540	83	45,595	76	5,124	52	10%
UNKNOWN	1,049	.	27,453	.	280	.	769	.	22,610	.	4,843	.	17%
(III) TOTAL DEBT													
UNDER $3000	22,071	55	51,989	48	7,394	47	14,677	60	41,896	45	10,093	68	19%
$3000-$6000	11,320	28	25,435	27	4,592	29	6,728	27	22,193	28	3,242	22	12%
OVER $6000	6,546	16	19,650	25	3,576	23	2,970	12	18,285	28	1,365	12	8%
(IV) YEARS IN SCHOOL AT LAST LOAN													
1	14,910	37	33,613	29	4,887	31	10,023	41	26,208	28	7,405	46	22%
2	10,399	26	20,392	19	3,717	24	6,682	27	17,090	19	3,302	22	16%
3	8,097	20	15,803	16	3,483	22	4,614	19	14,021	16	1,782	12	11%
4	6,531	16	27,266	37	3,475	22	3,056	12	25,055	39	2,211	20	8%
TOTAL	39,937	100	97,074	100	15,562	100	24,375	100	82,374	100	14,700	100	15%

NEW JERSEY GUARANTEED STUDENT LOAN PROGRAM

PROFILE OF GSL BORROWERS AT NEW JERSEY SCHOOLS 1983-87
SECTOR PROFILES

OSA RESEARCH: LKB

NJ GRADUATE AND PROFESSIONAL TOTAL	NUMBER OF BORROWERS AND %				NUMBER OF BORROWERS AND % OF KNOWN CASES								5-YEAR STUDENT DEFAULT RATE (D)/(C+D)
	IN SCHOOL		OUT OF SCHOOL		IN SCHOOL OR GRACE				OUT OF SCHOOL / DUE				
Table 4	TOTAL BORROWERS		TOTAL BORROWERS		(A) FALL 1987 LOANS		(B) PRIOR YEAR LOANS		(C) PAYING LENDERS		(D) LOAN DEFAULTS		
	N	%	N	%	N	%	N	%	N	%	N	%	RATE
(I) FAMILY INCOME													
UNDER $15,000	2,614	51	3,903	44	1,514	65	1,100	39	3,459	42	444	70	11%
$15 -$30,000	1,309	25	3,034	34	483	21	828	29	2,877	35	157	25	5%
OVER $30,000	1,231	24	1,979	22	329	14	902	32	1,953	24	26	4	1%
UNKNOWN	723	.	3,056	.	475	.	248	.	2,821	.	235	.	7%
TOTAL	5,877	100	11,972	100	2,801	100	3,076	100	11,110	100	862	100	7%
(II) DEPENDENCY													
SELF-SUPPORTING	3,488	69	5,870	67	1,812	80	1,676	60	5,356	66	514	84	8%
DEPENDENT	1,575	31	2,888	33	443	20	1,132	40	2,791	34	97	16	3%
UNKNOWN	814	.	3,214	.	546	.	268	.	2,963	.	251	.	7%
(III) TOTAL DEBT													
UNDER $3000	528	9	2,202	14	181	8	347	10	2,039	14	163	15	7%
$3000-$6000	1,272	22	3,181	23	355	15	917	29	2,938	23	243	26	7%
OVER $6000	4,077	69	6,589	63	2,265	78	1,812	61	6,133	63	456	60	6%
SECTOR													
STATE COLLEGES	233	5	1,107	9	103	4	130	5	929	8	178	21	16%
RUTGERS UNIV.	1,466	27	3,761	32	642	25	824	28	3,449	32	312	37	8%
NJIT	127	2	231	2	50	2	77	3	215	2	16	2	6%
UMDNJ	1,803	25	2,059	18	1,031	27	772	23	1,979	19	80	9	3%
INDEPENDENT	2,248	41	4,814	39	975	41	1,273	41	4,538	39	276	31	5%
TOTAL	5,877	100	11,972	100	2,801	100	3,076	100	11,110	100	862	100	7%

NEW JERSEY GUARANTEED STUDENT LOAN PROGRAM

PROFILE OF GSL BORROWERS AT NEW JERSEY SCHOOLS 1983-87
SECTOR PROFILES

OSA RESEARCH:LKB

NJ PROPRIETARY SCHOOL & HOSPITAL TOTAL	NUMBER OF BORROWERS AND %				NUMBER OF BORROWERS AND % OF KNOWN CASES								5-YEAR STUDENT DEFAULT RATE (D)/(C+D)
	IN SCHOOL		OUT OF SCHOOL		IN SCHOOL OR GRACE				OUT OF SCHOOL / DUE				
Table 5	TOTAL BORROWERS		TOTAL BORROWERS		(A) FALL 1987 LOANS		(B) PRIOR YEAR LOANS		(C) PAYING LENDERS		(D) LOAN DEFAULTS		
	N	%	N	%	N	%	N	%	N	%	N	%	RATE
(I) FAMILY INCOME													
UNDER $15,000	5,798	53	39,980	63	3,495	56	2,303	50	21,615	52	18,365	83	45%
$15 -$30,000	2,941	27	15,020	24	1,624	26	1,317	28	12,122	29	2,898	13	19%
OVER $30,000	2,176	20	8,320	13	1,145	18	1,031	22	7,592	18	728	3	8%
UNKNOWN	91	.	2,304	.	33	.	58	.	1,729	.	575	.	24%
TOTAL	11,008	100	65,624	100	6,297	100	4,709	100	43,058	100	22,566	100	34%
(II) DEPENDENCY													
SELF-SUPPORTING	5,217	48	31,436	50	3,170	51	2,047	45	18,279	45	13,157	60	41%
DEPENDENT	5,570	52	31,288	50	3,024	49	2,546	55	22,697	55	8,591	40	27%
UNKNOWN	219	.	2,900	.	103	.	116	.	2,082	.	818	.	28%
(III) TOTAL DEBT													
UNDER $3000	8,390	76	56,635	87	4,510	72	3,880	82	35,528	83	21,107	94	37%
$3000-$6000	2,054	19	7,175	11	1,434	23	620	13	5,850	13	1,325	6	18%
OVER $6000	562	5	1,814	3	353	6	209	4	1,680	4	134	1	7%
(IV) YEARS IN SCHOOL AT LAST LOAN													
1	8,146	74	54,741	84	4,377	69	3,769	80	34,360	80	20,381	90	37%
2	2,115	19	8,079	12	1,485	24	630	13	6,195	14	1,884	8	23%
3	551	5	1,928	3	338	5	213	4	1,713	4	215	1	11%
4	194	2	837	1	97	2	97	2	755	2	82	0	9%
GRADUATE	.	.	39	0	.	.	.	.	35	0	4	0	10%
TOTAL	11,008	100	65,624	100	6,297	100	4,709	100	43,058	100	22,566	100	34%

NEW JERSEY GUARANTEED STUDENT LOAN PROGRAM

PROFILE OF GSL BORROWERS AT NEW JERSEY SCHOOLS 1983-87
SECTOR PROFILES

OSA RESEARCH:LKB

COUNTY COLLEGES	NUMBER OF BORROWERS AND %				NUMBER OF BORROWERS AND % OF KNOWN CASES								5-YEAR STUDENT DEFAULT RATE (D)/(C+D)
	IN SCHOOL		OUT OF SCHOOL		IN SCHOOL OR GRACE				OUT OF SCHOOL / DUE				
Table 6	TOTAL BORROWERS		TOTAL BORROWERS		(A) FALL 1987 LOANS		(B) PRIOR YEAR LOANS		(C) PAYING LENDERS		(D) LOAN DEFAULTS		
	N	%	N	%	N	%	N	%	N	%	N	%	RATE
(I) FAMILY INCOME													
UNDER $15,000	2,284	41	7,249	48	929	55	1,355	34	4,556	40	2,693	71	37%
$15 -$30,000	1,682	30	4,843	32	467	28	1,215	31	4,060	36	783	21	16%
OVER $30,000	1,663	30	3,110	20	306	18	1,357	35	2,815	25	295	8	9%
UNKNOWN	77	.	5,289	.	3	.	74	.	3,977	.	1,312	.	24%
TOTAL	5,706	100	20,491	100	1,705	100	4,001	100	15,408	100	5,083	100	24%
(II) DEPENDENCY													
SELF-SUPPORTING	2,238	40	6,630	44	1,006	60	1,232	32	4,405	39	2,225	60	33%
DEPENDENT	3,324	60	8,434	56	668	40	2,656	68	6,927	61	1,507	40	17%
UNKNOWN	144	.	5,427	.	31	.	113	.	4,076	.	1,351	.	24%
(III) TOTAL DEBT													
UNDER $3000	4,354	77	16,413	79	1,219	72	3,135	79	12,118	77	4,295	85	26%
$3000-$6000	1,170	20	3,619	19	410	24	760	19	2,884	20	735	14	20%
OVER $6000	182	3	459	2	76	4	106	3	406	3	53	1	11%
(IV) YEARS IN SCHOOL AT LAST LOAN													
1	3,979	70	14,146	65	1,118	66	2,861	72	10,268	63	3,878	74	27%
2	1,601	28	5,645	32	568	33	1,033	26	4,524	34	1,121	25	19%
3	91	2	480	2	19	1	72	2	411	3	69	1	14%
4	35	1	220	1	.	.	35	1	205	1	15	0	6%
TOTAL	5,706	100	20,491	100	1,705	100	4,001	100	15,408	100	5,083	100	24%

NEW JERSEY GUARANTEED STUDENT LOAN PROGRAM

PROFILE OF GSL BORROWERS AT NEW JERSEY SCHOOLS 1983-87
SECTOR PROFILES

OSA RESEARCH:LKB

STATE COLLEGES	NUMBER OF BORROWERS AND %				NUMBER OF BORROWERS AND % OF KNOWN CASES								5-YEAR STUDENT DEFAULT RATE (D)/(C+D)
	IN SCHOOL		OUT OF SCHOOL		IN SCHOOL OR GRACE				OUT OF SCHOOL / DUE				
Table 7	TOTAL BORROWERS		TOTAL BORROWERS		(A) FALL 1987 LOANS		(B) PRIOR YEAR LOANS		(C) PAYING LENDERS		(D) LOAN DEFAULTS		
	N	%	N	%	N	%	N	%	N	%	N	%	RATE
(I) FAMILY INCOME													
UNDER $15,000	3,390	28	7,522	36	1,487	33	1,903	24	5,682	31	1,840	66	24%
$15 -$30,000	3,587	29	6,370	30	1,402	32	2,185	28	5,769	31	601	22	9%
OVER $30,000	5,244	43	7,233	34	1,552	35	3,692	47	6,907	38	326	12	4%
UNKNOWN	176	.	9,537	.	8	.	168	.	7,979	.	1,558	.	16%
TOTAL	12,397	100	30,662	100	4,449	100	7,948	100	26,337	100	4,325	100	14%
(II) DEPENDENCY													
SELF-SUPPORTING	2,370	20	5,782	27	1,069	24	1,301	17	4,502	25	1,280	46	22%
DEPENDENT	9,718	80	15,274	73	3,297	76	6,421	83	13,793	75	1,481	54	9%
UNKNOWN	309	.	9,606	.	83	.	226	.	8,042	.	1,564	.	16%
(III) TOTAL DEBT													
UNDER $3000	8,747	54	15,535	43	2,019	45	4,728	59	12,907	41	2,628	58	16%
$3000-$8000	3,676	30	8,909	30	1,387	31	2,289	29	7,772	31	1,137	27	12%
OVER $8000	1,974	16	6,218	26	1,043	23	931	12	5,658	28	560	17	9%
(IV) YEARS IN SCHOOL AT LAST LOAN													
1	4,000	32	8,077	19	1,094	24	2,906	36	6,496	17	1,581	29	19%
2	3,263	26	6,106	16	978	22	2,285	29	5,148	15	958	19	15%
3	2,861	23	8,261	21	1,180	27	1,681	21	5,514	21	747	19	11%
4	2,040	16	9,111	41	1,094	25	946	12	8,250	43	861	29	9%
GRADUATE	233	2	1,107	4	103	2	130	2	929	4	178	5	16%
TOTAL	12,397	100	30,662	100	4,449	100	7,948	100	26,337	100	4,325	100	14%

NEW JERSEY GUARANTEED STUDENT LOAN PROGRAM

PROFILE OF GSL BORROWERS AT NEW JERSEY SCHOOLS 1983-87
SECTOR PROFILES

OSA RESEARCH:LKB

PUBLIC UNIVERSITIES	NUMBER OF BORROWERS AND %				NUMBER OF BORROWERS AND % OF KNOWN CASES								5-YEAR STUDENT DEFAULT RATE (D)/(C+D)
	IN SCHOOL		OUT OF SCHOOL		IN SCHOOL OR GRACE				OUT OF SCHOOL / DUE				
Table 8	TOTAL BORROWERS		TOTAL BORROWERS		(A) FALL 1987 LOANS		(B) PRIOR YEAR LOANS		(C) PAYING LENDERS		(D) LOAN DEFAULTS		
	N	%	N	%	N	%	N	%	N	%	N	%	RATE
(I) FAMILY INCOME													
UNDER $15,000	4,031	32	6,918	35	2,055	45	1,976	24	5,707	32	1,211	67	17%
$15 -$30,000	3,279	26	5,427	28	1,188	27	2,091	26	5,030	28	397	22	7%
OVER $30,000	5,341	42	7,273	37	1,251	28	4,080	50	7,080	40	193	11	2%
UNKNOWN	914	.	7,439	.	521	.	393	.	6,545	.	894	.	12%
TOTAL	13,565	100	27,057	100	5,015	100	8,550	100	24,362	100	2,695	100	9%
(II) DEPENDENCY													
SELF-SUPPORTING	3,408	27	6,479	33	1,681	38	1,727	21	5,550	31	929	52	14%
DEPENDENT	9,168	73	12,991	67	2,762	62	6,406	79	12,133	69	858	48	6%
UNKNOWN	989	.	7,587	.	572	.	417	.	6,679	.	908	.	11%
(III) TOTAL DEBT													
UNDER $3000	5,565	43	9,576	29	1,629	36	3,936	46	8,302	28	1,274	42	13%
$3000-$6000	3,863	29	7,792	28	1,251	27	2,612	30	7,011	28	781	28	10%
OVER $6000	4,137	28	9,689	43	2,135	37	2,002	23	9,049	44	640	30	6%
(IV) YEARS IN SCHOOL AT LAST LOAN													
1	2,671	20	3,711	9	633	14	2,038	24	3,241	8	470	12	12%
2	2,644	20	3,885	11	719	16	1,925	23	3,327	10	558	17	14%
3	2,659	21	4,718	16	951	21	1,708	20	4,177	16	541	20	11%
4	2,195	17	8,692	41	989	22	1,206	14	7,974	42	718	35	8%
GRADUATE	3,396	22	6,051	24	1,723	28	1,673	19	5,643	24	408	16	6%
TOTAL	13,565	100	27,057	100	5,015	100	8,550	100	24,362	100	2,695	100	9%

NEW JERSEY GUARANTEED STUDENT LOAN PROGRAM

PROFILE OF GSL BORROWERS AT NEW JERSEY SCHOOLS 1983-87
SECTOR PROFILES

OSA RESEARCH:LKB

INDEPENDENT COLLEGES	NUMBER OF BORROWERS AND %				NUMBER OF BORROWERS AND % OF KNOWN CASES								5-YEAR STUDENT DEFAULT RATE (D)/(C+D)
	IN SCHOOL		OUT OF SCHOOL		IN SCHOOL OR GRACE				OUT OF SCHOOL / DUE				
Table 9	TOTAL BORROWERS		TOTAL BORROWERS		(A) FALL 1987 LOANS		(B) PRIOR YEAR LOANS		(C) PAYING LENDERS		(D) LOAN DEFAULTS		
	N	%	N	%	N	%	N	%	N	%	N	%	RATE
(I) FAMILY INCOME													
UNDER $15,000	4,003	29	7,003	30	2,216	31	1,787	26	5,694	27	1,309	59	18%
$15 -$30,000	3,807	27	7,142	31	1,993	28	1,814	27	6,560	32	582	26	8%
OVER $30,000	6,090	44	8,861	39	2,963	41	3,127	47	8,537	41	324	15	3%
UNKNOWN	246	.	7,830	.	22	.	224	.	6,586	.	1,244	.	15%
TOTAL	14,146	100	30,836	100	7,194	100	6,952	100	27,377	100	3,459	100	11%
(II) DEPENDENCY													
SELF-SUPPORTING	3,198	23	5,881	26	1,716	24	1,482	22	5,068	25	813	37	13%
DEPENDENT	10,527	77	16,908	74	5,338	76	5,189	78	15,533	75	1,375	63	8%
UNKNOWN	421	.	8,047	.	140	.	281	.	6,776	.	1,271	.	15%
(III) TOTAL DEBT													
UNDER $3000	5,933	42	12,667	35	2,708	38	3,225	47	10,608	33	2,059	51	16%
$3000-$6000	3,883	27	8,296	26	1,899	26	1,984	28	7,464	26	832	26	10%
OVER $6000	4,330	31	9,873	39	2,587	36	1,743	25	9,305	41	568	22	5%
(IV) YEARS IN SCHOOL AT LAST LOAN													
1	4,260	30	7,679	20	2,042	28	2,218	32	6,203	19	1,476	34	19%
2	2,891	21	4,756	13	1,452	20	1,439	21	4,091	13	665	18	13%
3	2,486	18	4,344	13	1,333	19	1,163	17	3,818	13	425	13	9%
4	2,261	16	9,243	38	1,392	19	869	13	8,626	40	617	26	6%
GRADUATE	2,248	15	4,814	15	975	13	1,273	17	4,538	15	276	9	5%
TOTAL	14,146	100	30,836	100	7,194	100	6,952	100	27,377	100	3,459	100	11%

NEW JERSEY GUARANTEED STUDENT LOAN PROGRAM

PROFILE OF GSL BORROWERS AT NEW JERSEY SCHOOLS 1983-87
SECTOR PROFILES

OSA RESEARCH:LKB

BUSINESS & SECRETARIAL SCHOOLS	NUMBER OF BORROWERS AND %				NUMBER OF BORROWERS AND % OF KNOWN CASES								5-YEAR STUDENT DEFAULT RATE (D)/(C+D)
	IN SCHOOL		OUT OF SCHOOL		IN SCHOOL OR GRACE				OUT OF SCHOOL / DUE				
Table 10	TOTAL BORROWERS		TOTAL BORROWERS		(A) FALL 1987 LOANS		(B) PRIOR YEAR LOANS		(C) PAYING LENDERS		(D) LOAN DEFAULTS		
	N	%	N	%	N	%	N	%	N	%	N	%	RATE
(I) FAMILY INCOME													
UNDER $15,000	2,379	55	20,793	67	1,352	55	1,027	55	10,275	55	10,518	86	50%
$15 -$30,000	1,119	26	6,359	21	637	26	482	26	4,984	27	1,375	11	21%
OVER $30,000	837	19	3,645	12	473	19	364	19	3,307	18	338	3	9%
UNKNOWN	45	.	682	.	17	.	28	.	479	.	203	.	29%
TOTAL	4,380	100	31,479	100	2,479	100	1,901	100	19,045	100	12,434	100	39%
(II) DEPENDENCY													
SELF-SUPPORTING	2,045	48	14,755	48	1,208	50	837	45	7,758	42	6,997	58	47%
DEPENDENT	2,241	52	15,724	52	1,232	50	1,009	55	10,632	58	5,092	42	32%
UNKNOWN	94	.	1,000	.	39	.	55	.	655	.	345	.	34%
(III) TOTAL DEBT													
UNDER $3000	3,685	84	28,954	92	1,988	80	1,699	90	17,042	90	11,912	96	41%
$3000-$6000	569	13	2,123	6	418	17	151	8	1,642	8	481	4	22%
OVER $6000	126	3	402	1	75	3	51	2	361	2	41	0	10%
(IV) YEARS IN SCHOOL AT LAST LOAN													
1	3,615	83	28,396	91	1,966	79	1,649	87	16,808	89	11,588	93	40%
2	594	14	2,444	8	412	17	182	10	1,720	9	724	6	29%
3	141	3	424	1	88	4	55	3	341	2	83	1	19%
4	30	1	215	1	15	1	15	1	176	1	39	0	18%
TOTAL	4,380	100	31,479	100	2,479	100	1,901	100	19,045	100	12,434	100	39%

NEW JERSEY GUARANTEED STUDENT LOAN PROGRAM

PROFILE OF GSL BORROWERS AT NEW JERSEY SCHOOLS 1983-87
SECTOR PROFILES

OSA RESEARCH:LKB

TRADE & TECHNICAL SCHOOLS Table 11	NUMBER OF BORROWERS AND %				NUMBER OF BORROWERS AND % OF KNOWN CASES								5-YEAR STUDENT DEFAULT RATE (D)/(C+D)
	IN SCHOOL		OUT OF SCHOOL		IN SCHOOL OR GRACE				OUT OF SCHOOL / DUE				
	TOTAL BORROWERS		TOTAL BORROWERS		(A) FALL 1987 LOANS		(B) PRIOR YEAR LOANS		(C) PAYING LENDERS		(D) LOAN DEFAULTS		
	N	%	N	%	N	%	N	%	N	%	N	%	RATE
(I) FAMILY INCOME													
UNDER $15,000	1,727	47	9,367	50	1,121	51	606	40	6,249	43	3,118	72	33%
$15 -$30,000	1,049	29	5,804	31	587	27	462	31	4,872	34	932	22	16%
OVER $30,000	901	25	3,512	19	464	22	437	29	3,235	23	277	6	7%
UNKNOWN	19	.	925	.	2	.	17	.	724	.	201	.	21%
TOTAL	3,696	100	19,608	100	2,174	100	1,522	100	15,080	100	4,528	100	23%
(II) DEPENDENCY													
SELF-SUPPORTING	1,639	45	8,283	45	1,055	49	584	39	5,949	42	2,334	54	28%
DEPENDENT	1,988	55	10,264	55	1,088	51	900	61	8,305	58	1,959	46	19%
UNKNOWN	69	.	1,061	.	31	.	38	.	826	.	235	.	22%
(III) TOTAL DEBT													
UNDER $3000	2,528	68	15,542	79	1,412	65	1,114	73	11,508	76	4,034	89	25%
$3000-$8000	831	23	2,982	15	536	25	295	19	2,571	17	411	9	13%
OVER $8000	339	9	1,084	6	226	10	113	8	1,001	7	83	2	7%
(IV) YEARS IN SCHOOL AT LAST LOAN													
1	2,465	67	15,088	77	1,362	62	1,103	73	11,195	74	3,893	86	25%
2	867	24	3,241	17	566	26	301	20	2,715	18	526	12	16%
3	283	8	1,020	5	195	9	88	6	927	6	93	2	9%
4	81	2	259	1	51	2	30	2	243	2	16	0	6%
TOTAL	3,696	100	19,608	100	2,174	100	1,522	100	15,080	100	4,528	100	23%

NEW JERSEY GUARANTEED STUDENT LOAN PROGRAM

PROFILE OF GSL BORROWERS AT NEW JERSEY SCHOOLS 1983-87
SECTOR PROFILES

OSA RESEARCH: LKB

COSMETOLOGY SCHOOLS	NUMBER OF BORROWERS AND %				NUMBER OF BORROWERS AND % OF KNOWN CASES								5-YEAR STUDENT DEFAULT RATE (D)/(C+D)
	IN SCHOOL		OUT OF SCHOOL		IN SCHOOL OR GRACE				OUT OF SCHOOL / DUE				
Table 12	TOTAL BORROWERS		TOTAL BORROWERS		(A) FALL 1987 LOANS		(B) PRIOR YEAR LOANS		(C) PAYING LENDERS		(D) LOAN DEFAULTS		
	N	%	N	%	N	%	N	%	N	%	N	%	RATE
(I) FAMILY INCOME													
UNDER $15,000	1,443	64	9,294	75	899	66	544	62	4,626	66	4,668	88	50%
$15 -$30,000	548	24	2,295	19	318	23	228	26	1,741	25	554	10	24%
OVER $30,000	266	12	752	6	152	11	114	13	660	9	92	2	12%
UNKNOWN	13	.	272	.	6	.	7	.	155	.	117	.	43%
TOTAL	2,268	100	12,613	100	1,375	100	893	100	7,182	100	5,431	100	43%
(II) DEPENDENCY													
SELF-SUPPORTING	1,245	56	7,809	64	769	57	476	54	4,047	58	3,762	72	48%
DEPENDENT	988	44	4,393	36	586	43	402	46	2,907	42	1,486	28	33%
UNKNOWN	35	.	411	.	20	.	15	.	228	.	183	.	44%
(III) TOTAL DEBT													
UNDER $3000	1,788	79	11,096	88	955	69	833	94	6,048	84	5,048	93	45%
$3000-$6000	465	20	1,490	12	409	30	56	6	1,112	16	378	7	25%
OVER $6000	15	1	27	0	11	1	4	0	22	0	5	0	18%
(IV) YEARS IN SCHOOL AT LAST LOAN													
1	1,736	77	10,482	83	909	66	827	93	5,686	79	4,796	88	45%
2	518	23	2,039	16	457	33	61	7	1,428	20	611	11	29%
3	10	0	52	0	5	0	5	1	40	1	12	0	23%
4	4	0	40	0	4	0	.	.	28	0	12	0	30%
TOTAL	2,268	100	12,613	100	1,375	100	893	100	7,182	100	5,431	100	43%

NEW JERSEY GUARANTEED STUDENT LOAN PROGRAM

PROFILE OF GSL BORROWERS AT NEW JERSEY SCHOOLS 1983-87
SECTOR PROFILES

OSA RESEARCH:LKB

HOSPITAL & NURSING SCHOOLS	NUMBER OF BORROWERS AND %				NUMBER OF BORROWERS AND % OF KNOWN CASES								5-YEAR STUDENT DEFAULT RATE (D)/(C+D)
	IN SCHOOL		OUT OF SCHOOL		IN SCHOOL OR GRACE				OUT OF SCHOOL / DUE				
Table 13	TOTAL BORROWERS		TOTAL BORROWERS		(A) FALL 1987 LOANS		(B) PRIOR YEAR LOANS		(C) PAYING LENDERS		(D) LOAN DEFAULTS		
	N	%	N	%	N	%	N	%	N	%	N	%	RATE
(I) FAMILY INCOME													
UNDER $15,000	249	38	526	35	123	47	126	32	465	34	61	51	11%
$15 -$30,000	227	35	562	38	82	32	145	38	525	38	37	31	6%
OVER $30,000	172	26	411	27	56	21	116	30	390	28	21	18	5%
UNKNOWN	14	.	425	.	8	.	6	.	371	.	54	.	12%
TOTAL	662	100	1,924	100	269	100	393	100	1,751	100	173	100	8%
(II) DEPENDENCY													
SELF-SUPPORTING	288	45	589	39	138	54	150	39	525	38	64	54	10%
DEPENDENT	353	55	907	61	118	46	235	61	853	62	54	46	5%
UNKNOWN	21	.	428	.	13	.	8	.	373	.	55	.	12%
(III) TOTAL DEBT													
UNDER $3000	391	59	1,043	51	157	58	234	59	930	50	113	62	10%
$3000-$6000	189	29	580	31	71	26	118	30	525	31	55	34	9%
OVER $6000	82	13	301	18	41	16	41	10	296	20	5	4	1%
(IV) YEARS IN SCHOOL AT LAST LOAN													
1	330	50	775	35	140	52	190	48	671	34	104	53	13%
2	136	21	355	19	50	18	86	22	332	19	23	15	6%
3	117	18	432	24	52	20	65	17	405	25	27	18	6%
4	79	12	323	19	27	11	52	13	308	20	15	11	4%
GRADUATE	.	.	39	3	.	.	.	.	35	3	4	3	10%
TOTAL	662	100	1,924	100	269	100	393	100	1,751	100	173	100	8%

APPENDIX B

Sector Comparisons of Undergraduate GSL Borrower Characteristics and Default Rates

I. Default Rates and Borrower Income Distributions

II. Default Rates Within Income Groups

III. Default Rates by GSL Debt Amounts

IV. Default Rates by Number of Years in School

These tables are based on the data in Appendix A. Small differences of a few percentage points in the five-year cumulative default rates are not significant, since cumulative rates also reflect recent changes in loan volume.

NEW JERSEY GUARANTEED STUDENT LOAN PROGRAM
UNDERGRADUATE GSL BORROWERS SINCE 1983

SECTOR COMPARISONS

OSA RESEARCH:LKB

(I) DEFAULT RATES AND INCOME DISTRIBUTION	TOTAL BORROWERS 1983-7 (1)	IN SCHOOL OR GRACE PERIOD DEC 1987 (2)	TOTAL OUT OF SCHOOL 1983-7 (3)	TOTAL DEFAULTED 1983-7 (4)	FIVE YEAR DEFAULT RATE (4)/(3)	ALL BORROWERS				
						INCOME DISTRIBUTION IF KNOWN				
						UNDER $15,000	$15,000 $30,000	OVER $30,000	UNKNOWN	TOTAL KNOWN
	N	N	N	N	RATE	%	%	%	%	%
INDEPENDENT COLLEGES	37,920	11,898	26,022	3,183	12%	27	29	44	.	100
PUBLIC UNIVERSITIES	31,175	10,169	21,006	2,287	10%	30	27	44	.	100
STATE COLLEGES	41,719	12,164	29,555	4,147	14%	32	30	38	.	100
COUNTY COLLEGES	26,197	5,706	20,491	5,083	24%	46	31	23	.	100
TRADE & TECHNICAL SCHOOLS	23,304	3,696	19,608	4,528	23%	50	31	20	.	100
BUSINESS & SECRETARIAL SCHLS	35,859	4,380	31,479	12,434	39%	66	21	13	.	100
COSMETOLOGY SCHOOLS	14,881	2,268	12,613	5,431	43%	74	19	7	.	100
HOSPITAL & NURSING SCHOOLS	2,547	662	1,885	169	8%	36	37	27	.	100
TOTAL	213,602	50,943	162,659	37,262	22%	44	27	28	.	100
TYPE										
NJ COLLEGE UNDERGRADUATES	137,011	39,937	97,074	14,700	15%	33	29	38	.	100
NJ PROPRIETARY SCHOOLS	76,591	11,006	65,585	22,562	34%	62	24	14	.	100
TOTAL	213,602	50,943	162,659	37,262	22%	44	27	28	.	100

NEW JERSEY GUARANTEED STUDENT LOAN PROGRAM
UNDERGRADUATE GSL BORROWERS SINCE 1983

SECTOR COMPARISONS

OSA RESEARCH:LKB

(II) DEFAULT RATES WITHIN INCOME GROUPS	TOTAL DEFAULTS				TOTAL OUT OF SCHOOL				FIVE YEAR DEFAULT RATES			
	FAMILY INCOME				FAMILY INCOME				FAMILY INCOME			
	UNDER $15,000	$15,000 $30,000	OVER $30,000	UNKNOWN	UNDER $15,000	$15,000 $30,000	OVER $30,000	UNKNOWN	UNDER $15,000	$15,000 $30,000	OVER $30,000	UNKNOWN
	N	N	N	N	N	N	N	N	RATE	RATE	RATE	RATE
INDEPENDENT COLLEGES	1,186	518	311	1,188	5,703	5,833	8,038	6,448	20%	8%	3%	18%
PUBLIC UNIVERSITIES	988	332	181	786	4,729	4,017	6,189	6,071	20%	8%	2%	12%
STATE COLLEGES	1,742	573	325	1,507	7,108	8,055	7,161	9,231	24%	9%	4%	16%
COUNTY COLLEGES	2,693	783	295	1,312	7,249	4,843	3,110	5,289	37%	16%	9%	24%
TRADE & TECHNICAL SCHOOLS	3,118	932	277	201	9,367	5,804	3,512	925	33%	16%	7%	21%
BUSINESS & SECRETARIAL SCHLS	10,518	1,375	338	203	20,783	6,359	3,645	682	50%	21%	9%	29%
COSMETOLOGY SCHOOLS	4,668	554	92	117	9,294	2,295	752	272	50%	24%	12%	43%
HOSPITAL & NURSING SCHOOLS	57	37	21	54	506	550	404	425	11%	6%	5%	12%
TOTAL	24,970	5,104	1,840	5,348	64,749	35,756	32,811	29,343	38%	14%	5%	18%
TYPE												
NJ COLLEGE UNDERGRADUATES	6,609	2,206	1,112	4,773	24,789	20,748	24,498	27,039	26%	10%	4%	17%
NJ PROPRIETARY SCHOOLS	18,361	2,898	728	575	39,960	15,008	8,313	2,304	45%	19%	8%	24%
TOTAL	24,970	5,104	1,840	5,348	64,749	35,756	32,811	29,343	38%	14%	5%	18%

NEW JERSEY GUARANTEED STUDENT LOAN PROGRAM
UNDERGRADUATE GSL BORROWERS SINCE 1983

SECTOR COMPARISONS

OSA RESEARCH LKB

(III) DEFAULT RATES BY DEBT AMOUNT	TOTAL DEFAULTS			TOTAL OUT OF SCHOOL			FIVE YEAR DEFAULT RATES		
	TOTAL DEBT			TOTAL DEBT			TOTAL DEBT		
	UNDER $3000	$3000-$6000	OVER $6000	UNDER $3000	$3000-$6000	OVER $6000	UNDER $3000	$3000-$6000	OVER $6000
	N	N	N	N	N	N	RATE	RATE	RATE
INDEPENDENT COLLEGES	2,002	750	431	11,652	6,942	7,428	17%	10%	5%
PUBLIC UNIVERSITIES	1,212	673	402	8,752	6,323	5,931	13%	10%	6%
STATE COLLEGES	2,584	1,084	479	15,172	8,551	5,832	17%	12%	8%
COUNTY COLLEGES	4,295	735	53	16,413	3,619	459	26%	20%	11%
TRADE & TECHNICAL SCHOOLS	4,034	411	83	15,542	2,982	1,084	25%	13%	7%
BUSINESS & SECRETARIAL SCHLS	11,912	481	41	28,954	2,123	402	41%	22%	10%
COSMETOLOGY SCHOOLS	5,048	378	5	11,096	1,490	27	45%	25%	18%
HOSPITAL & NURSING SCHOOLS	113	51	5	1,039	557	289	10%	9%	1%
TOTAL	31,200	4,563	1,499	108,620	32,587	21,452	28%	14%	6%
TYPE									
NJ COLLEGE UNDERGRADUATES	10,093	3,242	1,365	51,989	25,435	19,650	19%	12%	6%
NJ PROPRIETARY SCHOOLS	21,107	1,321	134	56,631	7,152	1,802	37%	18%	7%
TOTAL	31,200	4,563	1,499	108,620	32,587	21,452	28%	14%	6%

NEW JERSEY GUARANTEED STUDENT LOAN PROGRAM
UNDERGRADUATE GSL BORROWERS SINCE 1983

SECTOR COMPARISONS

OSA RESEARCH: LKB

(IV) DEFAULT RATES BY YEARS IN SCHOOL	TOTAL DEFAULTS				TOTAL OUT OF SCHOOL				FIVE YEAR DEFAULT RATES			
	YEARS IN SCHOOL AT LAST LOAN				YEARS IN SCHOOL AT LAST LOAN				YEARS IN SCHOOL AT LAST LOAN			
	1	2	3	4	1	2	3	4	1	2	3	4
	N	N	N	N	N	N	N	N	RATE	RATE	RATE	RATE
INDEPENDENT COLLEGES	1,476	665	425	617	7,679	4,756	4,344	9,243	19%	13%	9%	6%
PUBLIC UNIVERSITIES	470	558	541	718	3,711	3,885	4,718	8,692	12%	14%	11%	8%
STATE COLLEGES	1,581	958	747	861	8,077	6,106	6,261	9,111	19%	15%	11%	9%
COUNTY COLLEGES	3,878	1,121	69	15	14,146	5,645	480	220	27%	19%	14%	6%
TRADE & TECHNICAL SCHOOLS	3,893	526	93	16	15,088	3,241	1,020	259	25%	16%	9%	6%
BUSINESS & SECRETARIAL SCHLS	11,588	724	83	39	28,396	2,444	424	215	40%	29%	19%	18%
COSMETOLOGY SCHOOLS	4,798	611	12	12	10,482	2,039	52	40	45%	29%	23%	30%
HOSPITAL & NURSING SCHOOLS	104	23	27	15	775	355	432	323	13%	6%	6%	4%
TOTAL	27,786	5,186	1,997	2,293	88,354	28,471	17,731	28,103	31%	18%	11%	8%
TYPE												
NJ COLLEGE UNDERGRADUATES	7,405	3,302	1,782	2,211	33,613	20,392	15,803	27,266	22%	16%	11%	8%
NJ PROPRIETARY SCHOOLS	20,381	1,884	215	82	54,741	8,079	1,928	837	37%	23%	11%	9%
TOTAL	27,786	5,186	1,997	2,293	88,354	28,471	17,731	28,103	31%	18%	11%	8%

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APPENDIX C

Repayment Patterns After Default

Table A is a summary of all defaults at New Jersey schools and their repayment patterns. The years shown are the calendar year of the default claim. The current repayment status is the current status (April, 1988) of the accounts which defaulted that year. The repayment status categories indicate whether the defaulted account has been fully paid, is currently paying the NJHEAA, has made partial payments but stopped, never made a payment, or has been assigned to outside collection. The current balance is the unpaid amount plus interest accrued to date on the unpaid balance. Despite the substantial amounts collected, because of the continual accrual of interest the current balance due may be greater than the original default total.

Table B shows the percentage of the accounts in the various repayment categories by the year of default to illustrate the importance of time in understanding repayment patterns. Recent defaults are concentrated in the "no payment" category; defaults that occurred over ten years ago are concentrated in the "paid in full" category. Ten years from now the repayment history of those who defaulted recently will most probably look like the pattern that we see now for pre-1978 defaults.

Table C separates the accounts (including those in outside collection) according to whether the debt has been fully paid, partially paid, or never paid any amount.

NEW JERSEY DEPARTMENT OF HIGHER EDUCATION
OFFICE OF STUDENT LOANS
DEFAULTS BY CALENDAR YEAR AND CURRENT STATUS
ALL NEW JERSEY SCHOOLS TOTAL

TABLE A	NUMBER OF DEFAULTS	ORIGINAL DEFAULT AMOUNT	CURRENT REPAYMENT STATUS					TOTAL REPAID	CURRENT BALANCE DUE
			PD FULL	PAYING	STOPPED	NO PYMT	COLLCTN		
	N	$	N	N	N	N	N	$	$
DEFAULT CALENDAR YEAR									
THRU 1978	9,365	$18,083,900	4,290	716	1,263	1,052	2,044	$13,764,000	$14,569,700
1979	2,311	$5,258,300	938	234	357	189	593	$3,525,000	$4,139,800
1980	2,942	$6,867,800	1,194	293	488	226	741	$4,529,800	$5,095,500
1981	3,654	$8,790,700	1,284	383	667	302	1,018	$5,087,700	$6,891,300
1982	4,629	$11,227,200	1,315	613	877	456	1,368	$5,702,400	$9,138,200
1983	7,371	$18,583,900	1,452	1,044	1,758	907	2,210	$7,199,900	$17,163,700
1984	11,081	$29,571,500	1,431	2,025	3,215	1,856	2,554	$8,749,100	$28,599,500
1985	10,518	$28,676,300	956	2,328	3,281	2,251	1,702	$6,340,700	$28,314,900
1986	11,384	$30,484,800	649	2,696	3,637	3,267	1,135	$4,033,600	$30,801,400
1987	9,834	$27,264,100	199	2,154	2,095	4,507	879	$1,315,700	$27,843,600
1988-APRIL	1,866	$5,409,900	6	280	.	1,360	220	$45,400	$5,410,900
TOTAL	74,955	$190,218,500	13,714	12,766	17,638	16,373	14,464	$60,293,300	$177,968,500

OSA RESEARCH:LKB

DEATH/DISABILITY AND BANKRUPTCY NOT INCLUDED

NEW JERSEY DEPARTMENT OF HIGHER EDUCATION
OFFICE OF STUDENT LOANS
DEFAULTS BY CALENDAR YEAR AND CURRENT STATUS
ALL NEW JERSEY SCHOOLS TOTAL

TABLE B	NUMBER OF DEFAULTS						PERCENTAGE DISTRIBUTION					
	CURRENT REPAYMENT STATUS						CURRENT REPAYMENT STATUS					
	PD FULL	PAYING	STOPPED	NO PYMT	COLLCTN	TOTAL	PD FULL	PAYING	STOPPED	NO PYMT	COLLCTN	TOTAL
	N	N	N	N	N	N	PCT	PCT	PCT	PCT	PCT	PCT
DEFAULT CALENDAR YEAR												
THRU 1978	4,290	716	1,263	1,052	2,044	9,365	45%	7%	13%	11%	21%	100%
1979	938	234	357	189	593	2,311	40%	10%	15%	8%	25%	100%
1980	1,194	293	488	226	741	2,942	40%	9%	16%	7%	25%	100%
1981	1,284	383	667	302	1,018	3,654	35%	10%	18%	8%	27%	100%
1982	1,315	613	877	456	1,368	4,629	28%	13%	18%	9%	29%	100%
1983	1,452	1,044	1,758	907	2,210	7,371	19%	14%	23%	12%	29%	100%
1984	1,431	2,025	3,215	1,856	2,554	11,081	12%	18%	29%	16%	23%	100%
1985	956	2,328	3,281	2,251	1,702	10,518	9%	22%	31%	21%	16%	100%
1986	649	2,696	3,637	3,267	1,135	11,384	5%	23%	31%	28%	9%	100%
1987	199	2,154	2,095	4,507	879	9,834	2%	21%	21%	45%	8%	100%
1988-APRIL	6	280	.	1,360	220	1,866		15%		72%	11%	100%
TOTAL	13,714	12,766	17,638	16,373	14,464	74,955	18%	17%	23%	21%	19%	100%

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OSA RESEARCH:LKB

DEATH/DISABILITY AND BANKRUPTCY NOT INCLUDED

NEW JERSEY DEPARTMENT OF HIGHER EDUCATION
OFFICE OF STUDENT LOANS
DEFAULTS BY CALENDAR YEAR AND CURRENT STATUS
ALL NEW JERSEY SCHOOLS TOTAL

TABLE C	NUMBER OF DEFAULTS				PERCENTAGE DISTRIBUTION			
	CURRENT REPAYMENT STATUS				CURRENT REPAYMENT STATUS			
	PAID IN FULL	PARTIALLY PAID	NEVER PAID	TOTAL	PAID IN FULL	PARTIALLY PAID	NEVER PAID	TOTAL
	N	N	N	N	PCT	PCT	PCT	PCT
DEFAULT CALENDAR YEAR								
THRU 1978	4,290	3,661	1,414	9,365	45%	39%	15%	100%
1979	938	1,106	267	2,311	40%	47%	11%	100%
1980	1,194	1,433	315	2,942	40%	48%	10%	100%
1981	1,284	1,919	451	3,654	35%	52%	12%	100%
1982	1,315	2,633	681	4,629	28%	56%	14%	100%
1983	1,452	4,608	1,311	7,371	19%	62%	17%	100%
1984	1,431	7,346	2,304	11,081	12%	66%	20%	100%
1985	956	6,944	2,618	10,518	9%	66%	24%	100%
1986	649	7,159	3,576	11,384	5%	62%	31%	100%
1987	199	4,486	5,149	9,834	2%	45%	52%	100%
1988-APRIL	8	287	1,573	1,866		15%	84%	100%
TOTAL	13,714	41,582	19,659	74,955	18%	55%	26%	100%

OSA RESEARCH:LKB

DEATH/DISABILITY AND BANKRUPTCY NOT INCLUDED

APPENDIX D

Student Cohort Default Rates

(1) New Jersey Methodology

Graph

Newly Matured Loans Entering Repayment: Students repaying or defaulting in the same year that the loan becomes due from 1981-1982 to 1984-1985.

-- The bars show the total number of students in each sector whose loans matured (became due for repayment) during each state fiscal year, and the number of these students who defaulted during that same year (in most cases for failure to establish a repayment schedule with the lender).

-- The defaults shown are those whose legal date of default falls within the same year (the legal date is either the end of the grace period if no repayment agreement has been signed, or failure to pay installments for 120 days). Since it takes over 12 months after the default date before the majority of the claims are filed, we do not yet know the actual number of defaults among the students whose loans matured in 1985-6.

Tables

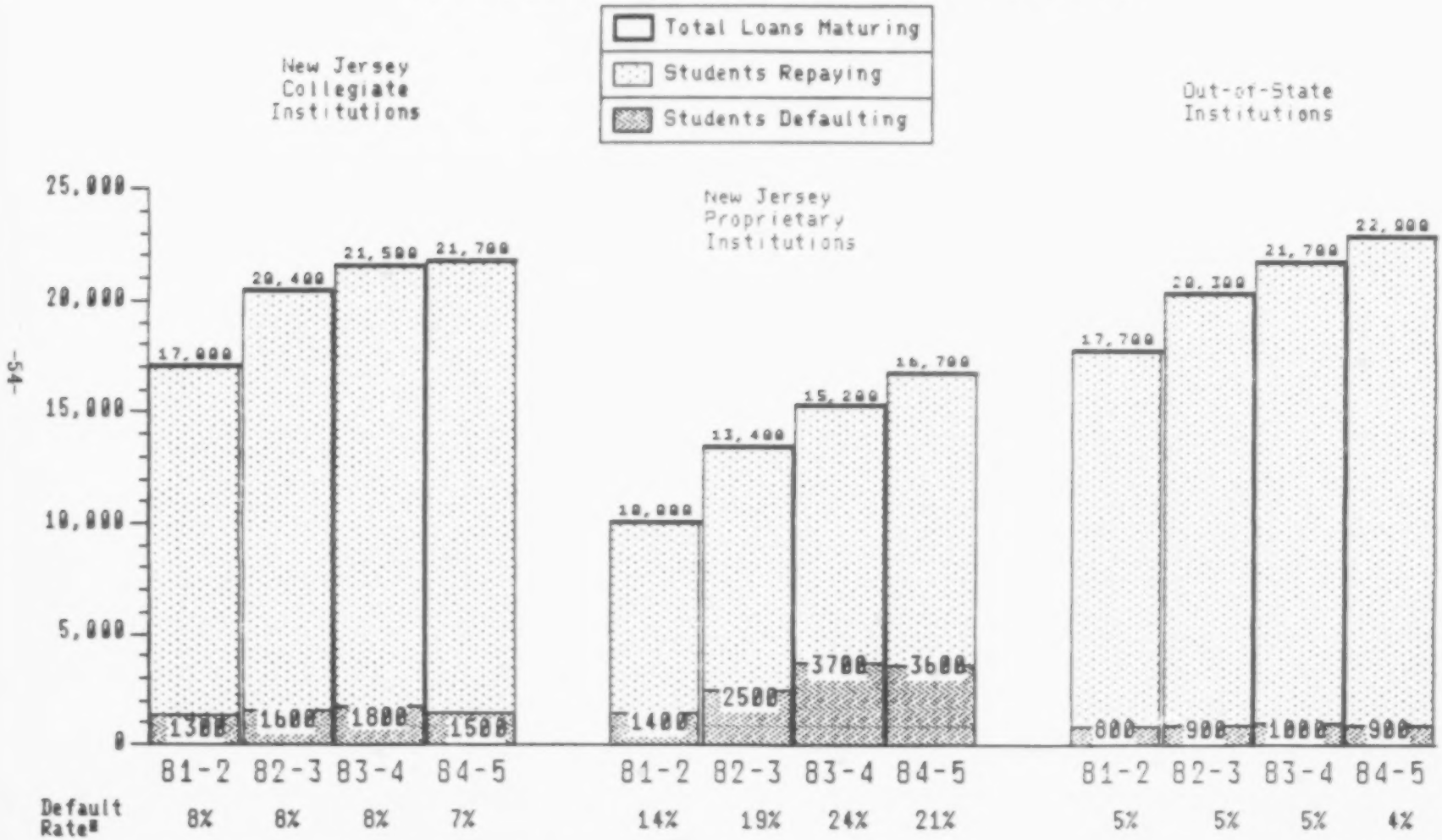
For each sector or institution the first column shows the total number of borrowers whose loans matured during each state fiscal year (July 1 - June 30) from 1980-1 to 1985-6. These students normally would have left school in the prior six to nine months. The next set of columns shows the number who defaulted within the 12 months of the same fiscal year, one year later, two years later, etc. By "defaulted" we mean when they actually stopped meeting their obligation to pay, either because they never established a repayment schedule at the end of the grace period or they failed to make a payment for four months. (The date when the lender submits the claim for the default is normally used for default rates, but this can be several months or even years after the default took place.) The largest number of defaults occur in less than 12 months after the loan matures, and then the number gets smaller in each succeeding year.

The annual default rates calculated in the next column are the percentage of students "at risk" who defaulted during that one-year time period. The group "at risk" in the first year counts all matured accounts. It gets smaller in each succeeding year because it excludes all those who either paid off their loans or had already defaulted in a prior year.

The cumulative default rate is simply the total number of borrowers who had ever defaulted at the end of that year divided by the original total number of matured loans. The cumulative rate tells us what percentage of all the original borrowers had ever defaulted at the end of that year; the annual rate tells us what percentage of those who could have defaulted did so in that particular year.

8/4/87

NEWLY MATURED LOANS ENTERING REPAYMENT
Students Repaying or Defaulting in the First Year
NJ GSL Program 1981-2 to 1984-5



*PERCENT OF BORROWERS DEFAULTING THE SAME YEAR AS THE LOAN BECOMES DUE FOR REPAYMENT; CLAIMS FOR DEFAULTS IN 1984-5 ARE STILL BEING RECEIVED

OSA RESEARCH: CCL

DEFAULTS AND DEFAULT RATES BY TYPE OF INSTITUTION AND TOTAL
BASED ON NJHEAA BORROWERS AND DATE THEY FAILED TO REPAY LOAN

12:12 THURSDAY, MAY 14, 1987

TYPE OF INSTITUTION AND FISCAL YEAR OF MATURITY			ANNUAL DEFAULTS YEARS LATER						ANNUAL RATE YEARS LATER						CUMULATIVE RATE YEARS LATER					
		MATURED LOANS	SAME YEAR	1 YEAR	2 YRS	3 YRS	4 YRS	5 YRS	SAME YEAR	1 YEAR	2 YRS	3 YRS	4 YRS	5 YRS	SAME YEAR	1 YEAR	2 YRS	3 YRS	4 YRS	5 YRS
		N	N	N	N	N	N	N	PCT	PCT	PCT	PCT	PCT	PCT	PCT	PCT	PCT	PCT	PCT	PCT
NEW JERSEY COLLEGIATE	FY MATURED																			
	1980-1	12047	834	482	243	225	143	93	6.9	4.5	2.5	2.6	1.8	1.4	6.9	10.9	12.9	14.8	16.0	16.8
	1981-2	16956	1330	849	523	316	250		7.8	5.7	3.9	2.5	2.2		7.8	12.9	15.9	17.8	19.3	
	1982-3	20382	1600	1134	682	308			7.9	6.3	4.2	2.1			7.9	13.4	16.8	18.3		
	1983-4	21545	1789	1338	646				8.3	7.1	3.8				8.3	14.5	17.5			
	1984-5	21682	1464	1371					6.8	7.1					6.8	13.1				
	1985-6	21869	1069						4.9						4.9					
NJ PROPRIETARY	FY MATURED																			
	1980-1	6329	609	437	231	154	120	59	9.6	8.2	5.1	3.9	3.5	2.1	9.6	16.5	20.2	22.6	24.5	25.4
	1981-2	9999	1380	943	548	516	196		13.8	11.7	8.2	5.4	3.8		13.8	23.2	28.7	31.9	33.8	
	1982-3	13372	2474	1552	732	335			18.5	15.2	8.8	4.7			18.5	30.1	35.6	38.1		
	1983-4	15184	3659	1810	696				24.1	16.8	8.1				24.1	36.0	40.6			
	1984-5	16728	3576	1787					21.4	14.4					21.4	32.1				
	1985-6	16279	2878						17.7						17.7					
OUT OF STATE	FY MATURED																			
	1980-1	13365	561	383	279	192	147	84	4.2	3.1	2.4	1.8	1.5	0.9	4.2	7.1	9.2	10.6	11.7	12.3
	1981-2	17707	818	594	436	292	187		4.6	3.7	2.9	2.1	1.4		4.6	8.0	10.4	12.1	13.1	
	1982-3	20267	896	743	470	303			4.4	4.1	2.8	1.9			4.4	8.1	10.4	11.9		
	1983-4	21734	987	884	457				4.5	4.5	2.5				4.5	8.6	10.7			
	1984-5	22897	905	806					4.0	3.8					4.0	7.5				
	1985-6	23617	689						2.9						2.9					
TOTAL	FY MATURED																			
	1980-1	31741	2004	1302	753	571	410	236	6.3	4.6	2.9	2.4	1.9	1.3	6.3	10.4	12.8	14.6	15.9	16.6
	1981-2	44662	3528	2386	1507	924	633		7.9	6.1	4.3	2.8	2.1		7.9	13.2	16.6	18.7	20.1	
	1982-3	54021	4970	3429	1884	946			9.2	7.4	4.5	2.5			9.2	15.5	19.0	20.8		
	1983-4	58463	6435	4032	1799				11.0	8.2	4.1				11.0	17.9	21.0			
	1984-5	61307	5945	3964					9.7	7.5					9.7	16.2				
	1985-6	61765	4636						7.5						7.5					

APPENDIX D

(2) Federal Methodology

This report shows the Guaranteed Student Loan default rates for New Jersey postsecondary institutions calculated according to our understanding of the method announced by Secretary of Education Bennett on November 4 as the rate which will be used in the future to measure institutional defaults. Institutions with "fiscal year default rates" over 20% will be subject to federal program reviews and possible sanctions. At this time the U. S. Department of Education has not yet announced any technical details on the proposed methodology, so these rates should be considered preliminary and advisory only. The numbers shown are only for loans guaranteed by the NJHEAA, while the federal rates will include loans guaranteed by other state agencies and national guarantors such as HEAF. For institutions with large numbers of out-of-state students or HEAF guaranteed loans, the numbers shown are substantially incomplete.

Each row in the table shows the total number of student borrowers whose loans became due for repayment in each federal fiscal year (October 1 - September 30) since 1982-3. This represents the denominator for calculating the rate. The next set of columns shows the number of these borrowers who defaulted during that same year, the number who defaulted during the second year after entering repayment, and so on, up to five years later.

The next group of columns shows the cumulative total of the number of defaulters after one year, two years and so on. This is the number used in the numerator for calculating the rates.

The cumulative cohort rates are shown in the last set of columns. The denominator is the total number of borrowers who entered repayment; the numerator is the cumulative number of defaults through that year. The starred (*) column showing the default rate two years after the beginning of the given fiscal year is the rate that apparently will be used to determine which institutions have a "fiscal year default rate" over 20% and may therefore be subject to federal review. Defaults for the 1987-8 cohort will be counted through September 30, 1988, and used to calculate an "advisory" rate. The defaults of the cohort entering repayment in FY1988-89 will be counted through September 30, 1990 and used to calculate the rate that USDE proposes to use to identify institutions with default rates over 20%.

These rates differ from those previously reported by the NJHEAA in two ways: The first is that federal fiscal years (October 1 - September 30) are used instead of state fiscal years (July 1 - June 30). Second, the year of default is determined by the date that the lender filed the default claim with the NJHEAA, which is normally 4-6 months after the legal date of default used in previous reports.

DEFAULTS AND STUDENT COHORT DEFAULT RATES BY FEDERAL FISCAL YEARS

INSTITUTIONAL TYPE	STUDENT COHORT ENTERING REPAYMENT	ANNUAL DEFAULT CLAIMS					CUMULATIVE DEFAULT CLAIMS					COHORT DEFAULT RATE				
		SAME YEAR	2ND YEAR	3RD YEAR	4TH YEAR	5TH YEAR	SAME YEAR	2ND YEAR	3RD YEAR	4TH YEAR	5TH YEAR	SAME YEAR	*2ND* YEAR	3RD YEAR	4TH YEAR	5TH YEAR
	N	N	N	N	N	N	N	N	N	N	N	PCT	PCT	PCT	PCT	PCT
NEW JERSEY COLLEGIATE	FEDERAL FY															
	1982-3	20456	613	1495	1072	454	306	613	2108	3180	3634	3940	3.0	10.3	15.5	17.8	19.3
	1983-4	21263	812	1851	875	487		812	2663	3538	4025		3.8	12.5	16.6	18.9	
	1984-5	21638	803	1828	727			803	2631	3358			3.7	12.2	15.5		
	1985-6	20802	943	1190				943	2133				4.5	10.3			
	1986-7	18999	602					602					3.2				
NEW JERSEY PROPRIETARY	1982-3	13963	1033	2323	1525	531	299	1033	3356	4881	5412	5711	7.4	24.0	35.0	38.8	40.9
	1983-4	16237	1398	3696	1255	616		1398	5094	6349	6965		8.6	31.4	39.1	42.9	
	1984-5	18069	1361	3969	1551			1361	5330	6881			7.5	29.5	38.1		
	1985-6	17568	2045	3472				2045	5517				11.6	31.4			
	1986-7	12011	778					778					6.5				
OUT OF STATE	1982-3	20299	355	906	678	375	222	355	1261	1939	2314	2536	1.7	6.2	9.6	11.4	12.5
	1983-4	21865	493	1205	614	361		493	1698	2312	2673		2.3	7.8	10.6	12.2	
	1984-5	22804	433	1048	540			433	1481	2021			1.9	6.5	8.9		
	1985-6	22406	540	746				540	1286				2.4	5.7			
	1986-7	18956	305					305					1.6				
TOTAL	1982-3	54718	2001	4724	3275	1360	827	2001	6725	10000	11360	12187	3.7	12.3	18.3	20.8	22.3
	1983-4	59365	2703	6752	2744	1464		2703	9455	12199	13663		4.6	15.9	20.5	23.0	
	1984-5	62511	2597	6845	2818			2597	9442	12260			4.2	15.1	19.6		
	1985-6	60776	3528	5408				3528	8936				5.8	14.7			
	1986-7	49966	1685					1685					3.4				

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NEW JERSEY GUARANTEED STUDENT LOAN PROGRAM
DEFAULT RATES BY EDUCATIONAL INSTITUTION TYPE AND SECTOR

10:50 MONDAY, NOVEMBER 16, 1987

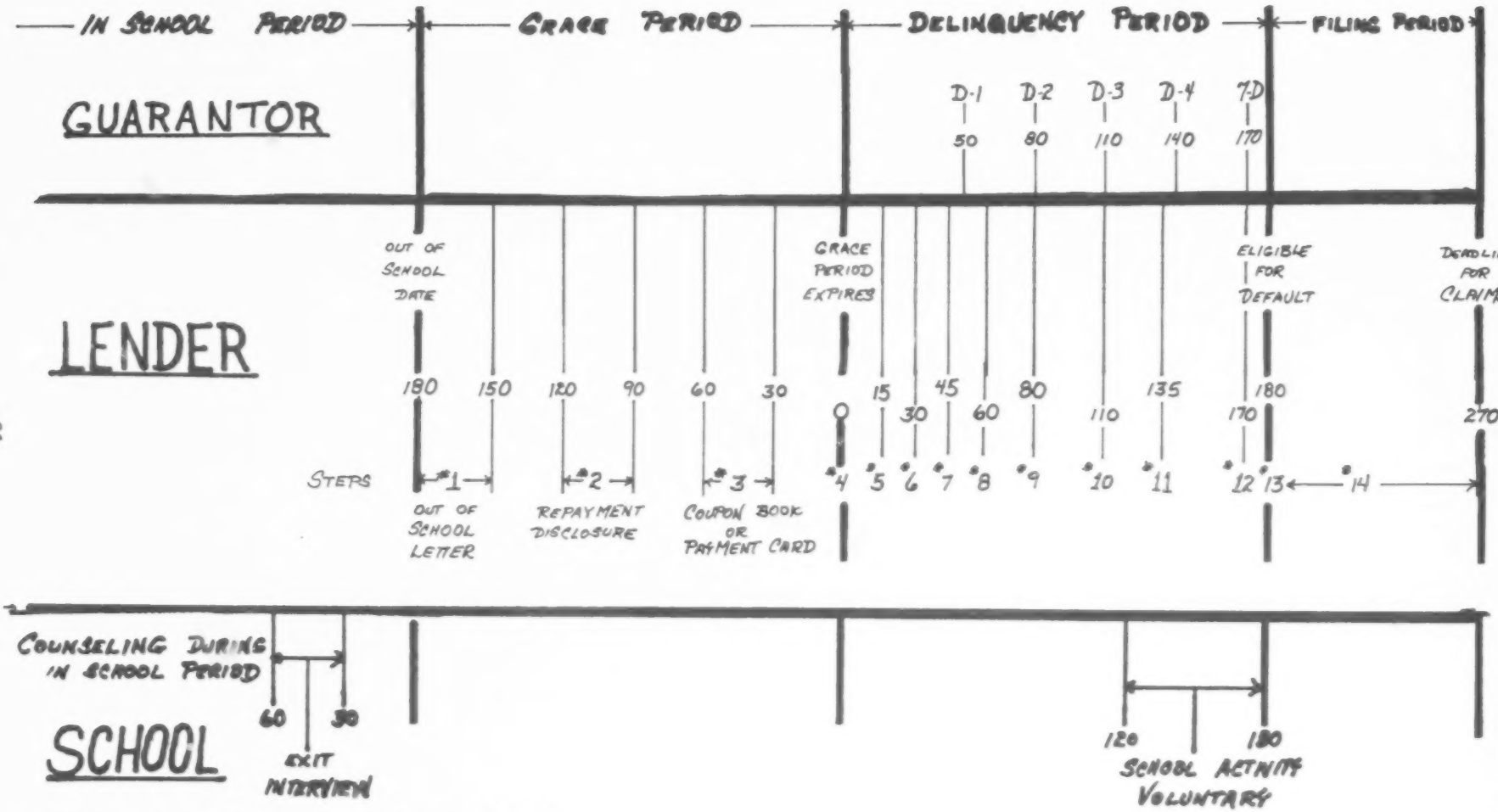
NEW JERSEY COLLEGIATE		STUDENT COHORT ENTERING REPAYMENT	ANNUAL DEFAULT CLAIMS					CUMULATIVE DEFAULT CLAIMS					COHORT DEFAULT RATE				
			SAME YEAR	2ND YEAR	3RD YEAR	4TH YEAR	5TH YEAR	SAME YEAR	2ND YEAR	3RD YEAR	4TH YEAR	5TH YEAR	SAME YEAR	*2ND* YEAR	3RD YEAR	4TH YEAR	5TH YEAR
		N	N	N	N	N	N	N	N	N	N	N	PCT	PCT	PCT	PCT	PCT
COUNTY COLLEGE	FEDERAL FY																
	1982-3	3947	221	502	297	115	78	221	723	1020	1135	1213	5.6	18.3	25.8	28.8	30.7
	1983-4	4243	307	662	263	148		307	969	1232	1380		7.2	22.8	29.0	32.5	
	1984-5	4627	300	708	263			300	1008	1271			6.5	21.8	27.5		
	1985-6	3950	339	457				339	796				8.6	20.2			
	1986-7	3755	210					210					5.6				
STATE COLLEGE	1982-3	5992	170	451	310	144	101	170	621	931	1075	1176	2.8	10.4	15.5	17.9	19.6
	1983-4	6035	215	508	228	141		215	723	951	1092		3.6	12.0	15.8	18.1	
	1984-5	6243	230	457	184			230	687	871			3.7	11.0	14.0		
	1985-6	5904	238	327				238	565				4.0	9.6			
	1986-7	5317	179					179					3.4				
PUBLIC UNIVERSITIES	1982-3	4826	107	253	203	89	58	107	360	563	652	710	2.2	7.5	11.7	13.5	14.7
	1983-4	5293	139	324	183	93		139	463	646	739		2.6	8.7	12.2	14.0	
	1984-5	5313	137	297	139			137	434	573			2.6	8.2	10.8		
	1985-6	5515	177	188				177	365				3.2	6.6			
	1986-7	5114	100					100					2.0				
INDEPENDENT COLLEGE	1982-3	5691	115	289	262	106	69	115	404	666	772	841	2.0	7.1	11.7	13.6	14.8
	1983-4	5692	151	357	201	105		151	508	709	814		2.7	8.9	12.5	14.3	
	1984-5	5455	136	366	141			136	502	643			2.5	9.2	11.8		
	1985-6	5433	189	218				189	407				3.5	7.5			
	1986-7	4813	113					113					2.3				

NEW JERSEY GUARANTEED STUDENT LOAN PROGRAM
DEFAULT RATES BY EDUCATIONAL INSTITUTION TYPE AND SECTOR

10:50 MONDAY, NOVEMBER 16, 1987

NJ PROPRIETARY		STUDENT COHORT ENTERING REPAYMENT	ANNUAL DEFAULT CLAIMS					CUMULATIVE DEFAULT CLAIMS					COHORT DEFAULT RATE				
			SAME YEAR	2ND YEAR	3RD YEAR	4TH YEAR	5TH YEAR	SAME YEAR	2ND YEAR	3RD YEAR	4TH YEAR	5TH YEAR	SAME YEAR	*2ND* YEAR	3RD YEAR	4TH YEAR	5TH YEAR
		N	N	N	N	N	N	N	N	N	N	N	PCT	PCT	PCT	PCT	PCT
BUSINESS SECRETARIAL	FEDERAL FY																
	1982-3	6931	557	1175	816	277	151	557	1732	2548	2825	2976	8.0	25.0	36.8	40.8	42.9
	1983-4	8118	780	1956	660	324		780	2736	3396	3720		9.6	33.7	41.8	45.8	
	1984-5	9763	781	2473	915			781	3254	4169			8.0	33.3	42.7		
	1985-6	8580	1137	1939				1137	3076				13.3	35.9			
	1986-7	5311	385					385					7.2				
TRADE TECHNICAL	1982-3	3975	140	534	320	146	78	140	674	994	1140	1218	3.5	17.0	25.0	28.7	30.6
	1983-4	4490	240	686	303	141		240	926	1229	1370		5.3	20.6	27.4	30.5	
	1984-5	4899	224	726	362			224	950	1312			4.6	19.4	26.8		
	1985-6	5241	433	651				433	1084				8.3	20.7			
	1986-7	3915	182					182					4.6				
COSMETOLOGY	1982-3	2559	316	569	373	96	58	316	885	1258	1354	1412	12.3	34.6	49.2	52.9	55.2
	1983-4	3060	357	994	262	135		357	1351	1613	1748		11.7	44.2	52.7	57.1	
	1984-5	2851	341	732	254			341	1073	1327			12.0	37.6	46.5		
	1985-6	3194	449	855				449	1304				14.1	40.8			
	1986-7	2413	206					206					8.5				
HOSPITAL HEALTH	1982-3	498	20	45	16	12	12	20	65	81	93	105	4.0	13.1	16.3	18.7	21.1
	1983-4	569	21	60	30	16		21	81	111	127		3.7	14.2	19.5	22.3	
	1984-5	556	15	38	20			15	53	73			2.7	9.5	13.1		
	1985-6	553	26	27				26	53				4.7	9.6			
	1986-7	372	5					5					1.3				

TIME LINE CHART



D-1 through 7-D indicates letters sent by NJHEAA
Lender Due Diligence steps are described on the next page

DUE DILIGENCE REQUIREMENTS (ONE NOTE CONCEPT)

STEP ONE (within 30 days of out of school):

A letter should be sent to the borrower, advising that repayment is expected to start at the expiration of the grace period. This letter may also be used to congratulate the borrower on their graduation.

STEP TWO (between 90 and 120 days prior to expiration of grace period):

A repayment disclosure must be sent to the borrower. A cover letter should be sent that may request the borrower to sign and return the original disclosure. The borrower should be advised that failure to sign does not reduce their liability for repayment of the loan. A copy of the repayment disclosure must be retained to be submitted with the claim package.

STEP THREE (30 to 60 days prior to expiration of grace period):

Provide the borrower with a coupon book(s) or payment card(s) for at least the first payment.

STEP FOUR (expiration of grace period):

Transfer or convert the loan from an interim to an installment basis.

STEP FIVE (15 days after due date):

Send the borrower a notice or a letter reminding the borrower of the past due installment.

STEP SIX (30 days after due date):

Send the borrower a collection letter.

STEP SEVEN (45 days after due date):

Send the borrower a collection letter and notify NJHEAA of delinquency.*

STEP EIGHT (60 days after due date):

Make a telephone contact with borrower and/or send another progressively stronger collection letter.

STEP NINE (80 days after due date):

Send the borrower a progressively stronger collection letter.

STEP TEN (110 days after due date):

Make a telephone contact with borrower and/or send a progressively stronger collection letter.

STEP ELEVEN (135 days after due date):

Send the borrower a very strong collection letter.

STEP TWELVE (170 days after due date):

Send the borrower a final demand letter for balance in full.

STEP THIRTEEN (prior to 270 days after due date):

File default claim form with NJHEAA.

Steps **ONE** through **FOUR** are not part of Due Diligence but are strongly RECOMMNEDED by the Office of Student Loans.

*Once NJHEAA has been notified, maintain contact for additional assistance via compliance forms. Submit evidence of due diligence, actual copies or checklist, along with 7-Day compliance form.

State of New Jersey
Department of Higher Education
New Jersey Higher Education Assistance Authority

A PLAN TO ASSESS GUARANTEED STUDENT LOAN PROGRAM COMPLIANCE AND INITIATE APPROPRIATE CORRECTIVE MEASURES

September 26, 1986

GSL Program Participation

The Guaranteed Student Loan Program (GSLP) is available to New Jersey residents attending any post-secondary institution eligible for participation in the program. The criteria for program participation are established by the U.S. Department of Education. There are currently 226 New Jersey schools eligible to participate in the Guaranteed Student Loan Program. Of these, 53 are accredited collegiate institutions licensed by the Department of Higher Education and, 173 are proprietary schools outside Department of Higher Education academic jurisdiction. Of the latter group, there are 34 schools of cosmetology that are regulated by the Board of Beauty Culture within the Office of the Attorney General. The remainder, 139 schools offering business, technical and other vocational training, come under the jurisdiction of the New Jersey Department of Education, which is responsible for the licensing and academic review of these schools.

Defaults and Default Rates

As the volume of guaranteed loans grew during the 1980's, the volume of default dollars claimed by lenders also grew substantially, but the New Jersey annual default claim rate has remained below 5 percent. At the end of federal fiscal year 1985, New Jersey's default claim rate rose to 4.89 percent. If the annual default claim rate should exceed 5 percent, the federal government would no longer reinsure (reimburse) the guaranty agency for the entire amount of the default claims.

Although the default claim rate is a very important accounting measure for the GSL program because it determines the federal reinsurance rate, it is not the best way to measure annual changes in student default behavior at individual institutions. A better method is to determine the number of students whose loans "matured" (became due for repayment) in a given year and then count the number of students who defaulted in the same year, the number who defaulted one year later, two years later, etc. This method was utilized to develop supporting data. A guaranty agency is particularly concerned about the percentage of students that default in the same year that the loans become due. Attachment A shows that the percentage of students defaulting the same year as their loans became due has remained relatively stable at New Jersey colleges (about 8 percent) and out-of-state colleges (about 4 percent), but has increased from 10 to 23 percent at the proprietary schools in the four years between 1980-81 and 1983-84. Similar tables were produced for every New Jersey institution in November 1985. Because claims are still being received for defaults which occurred in prior years the numbers are subject to change, and the default rates for those whose loans matured in 1984-85 are still incomplete.

NJHEAA Concerns

In January 1986, utilizing institutional default rates, the NJHEAA initially identified schools whose default rate for students whose loans matured in 1983-84 exceeded 20 percent during the same year that the loans became due for repayment. At many of these schools over 50 percent of the students had defaulted two years after loan maturity. In most cases there had been large increases in the number of matured loans, the number of defaults, and the default rates over the prior years.

The schools with the unusually high default rates consisted of three colleges, 11 schools of cosmetology and 18 other proprietary vocational-technical schools. Nearly all of them are located in urban areas and serve many low-income students with weak educational backgrounds. The three colleges - Essex Community College, Jersey City State College and Bloomfield College - have some of the highest proportions of minority and low-income TAG and EOF students in the state. Schools with large numbers of "high risk" students are likely to have higher than average loan default rates. On the other hand, schools which serve student populations with high default risk also have an extra responsibility to provide strong student support services, maintain high levels of administrative efficiency in their student aid programs, and to discourage students from incurring unnecessary debt. If instead, these schools are found to have serious deficiencies in the administrative policies and practices adversly affecting GSL students, their eligibility to participate in the program should be reconsidered.

The Program Reviews

The identified schools were notified of the NJHEAA's concern about their high default rates and the intent to conduct a program review at each institution. The reviews were based on both a pre-audit questionnaire and a preliminary on-site examination of student files representing a 5 percent sample of students who had applied for a guaranteed loan between January 1980 and April 1986.

Although all aspects of GSL administration by the school were reviewed for compliance with federal and state regulations, certain factors were identified as essential to assure the institution's capability to properly administer the program and to prevent student defaults at that institution. Those factors were: the rate of student withdrawal before completing the program; the timely confirmation of student enrollment status to GSL lenders and NJHEAA; the institution's practice in providing timely refunds to lenders

on behalf of students who had withdrawn; and complete documentation for each student in the school files. A list of all the areas reviewed is attached. (See Attachment B).

Phase I of the review began during March 1986 and was coordinated with staff from the New Jersey Department of Education. The preliminary review of 29 non-collegiate institutions was completed in August 1986. Phase II of the review will involve the three collegiate institutions and a revisitation to 20 schools to confirm our preliminary findings with an examination of a larger sample of students.

General Findings

The reviews of the GSL programs found that the problems listed below were common at many schools:

(1) Withdrawal rates were generally very high. At half of the schools, 50 percent or more of the GSL student sample had withdrawn before completing the program. It appears that many students who had not graduated from high school were admitted to programs which require basic high school skills for successful completion. Although most schools also offered a GED instructional program, attendance was not required. Consequently, a large proportion of borrowers never completed the training which would allow them to earn the money to repay their loans.

(2) Notification of enrollment status changes (such as withdrawals) of GSL borrowers were often not reported to lenders on a timely basis. At half of the schools 20 percent or more of the required notifications were processed late or completely overlooked. This information is essential for the lenders to establish contact with the student and prevent potential defaults.

(3) A majority of the schools failed to issue tuition refunds to lenders on behalf of students in a timely manner after withdrawal. Students who have not received proper credit for refunds may refuse to sign repayment notes with the lenders on time, putting them at risk of default. It was not unusual to find cases where refunds had been delayed over 180 days.

(4) At almost half of the schools, there were serious deficiencies in the maintenance of student files and information essential for the proper administration of the GSL program. At seven schools over half of the files had missing documentation.

(5) There was an overreliance on GSL loans for institutional cash flow, with ten schools reporting that over 75 percent of their enrollment consisted of GSL aided students. GSL's are typically included as a normal part of all financial aid packages at these schools. The distinction between federal grants and the repayment obligation for loans is not sufficiently emphasized.

(6) There is a problem peculiar to cosmetology schools which prevents the majority of borrowers from legally practicing the trade for which they were trained. Although a high school diploma or a GED is not required for enrollment at cosmetology schools, it is required by the Board of Beauty Culture to be licensed as a cosmetologist.

Of the 221 GSL borrowers in the sample who successfully completed their training and graduated from cosmetology schools, 123 (55 percent) did not have a high school diploma or GED. A follow-up on the subsequent GED success of these students was revealing. According to the New Jersey Department of Education records, only 14 of these students eventually took the GED examination and only nine passed it, thereby qualifying for licensure.

Framework for Evaluation and Corrective Action

In addition to the default rate, the first four of the above findings constitute non-compliance with specific state and federal regulations governing the GSL Program (Attachment C) and also indicate serious deficiencies in institutional administration. A high student withdrawal rate indicates the ineffectiveness of support services provided to GSL borrowers. Failure to provide timely notification to lenders of enrollment status changes indicates a weak administrative capability. Failure to refund loan monies to lenders on behalf of students in a timely manner jeopardizes the borrower's willingness to meet loan repayment obligations. Inaccurate, incomplete or totally missing student files indicates a general failure to meet the basic requirements of GSL Program accountability.

An incidence of non-compliance of 33 percent or more in any of these areas indicates a serious deficiency in program administration. Considered in conjunction with a high default rate, the incidence of non-compliance in these four areas provides an objective framework for the evaluation of GSL Programs and will be used to define the appropriate extent of corrective or disciplinary action to be taken.

Institutions will be evaluated for potential action leading to suspension or limitation of GSL program participation on the basis of five categories where existing regulations specify compliance standards. They are as follows:

- the default rate
- the student withdrawal rate
- timely notification of required enrollment status changes
- timely refund practices
- accuracy and completeness of documentation

The extent of corrective or disciplinary action, initiated by the NJHEAA, will be defined by the number of categories in which the incidence of non-compliance or the default rate is 33 percent or higher. The sanctions will be:

(1) Required Plan of Corrective Action

Schools with violations exceeding 33 percent in only one of the five cited categories will be allowed to continue participation in the Guaranteed Student Loan Program but will be required to provide a plan of corrective action to NJHEAA within 90 days of formal notification.

(2) Limitation

Schools with violations exceeding 33 percent in two of the five cited categories, that have not substantively refuted the findings, will be served with notice of intent to limit participation in the Guaranteed Student Loan Program to 50 percent of entering classes for a period of eighteen months. Further, the school will be required to submit a plan of corrective action within 90 days of formal notification.

(3) Suspension

Schools with violations exceeding 33 percent in three of the five cited categories, that have not substantively refuted the findings, will be served with notice of intent to suspend participation in the Guaranteed Student Loan Program for a period of eighteen months. The school will be required to submit a plan of corrective action which must be approved before formal reinstatement will be considered.

STATE OF NEW JERSEY
DEPARTMENT OF HIGHER EDUCATION
CN 542
TRENTON, NEW JERSEY 08625

OFFICE OF THE CHANCELLOR

January 6, 1988

Honorable William Bennett
Secretary of Education
U. S. Department of Education
400 Maryland Avenue, S. W.
Washington, D. C. 20202

Dear Secretary Bennett:

I am writing on behalf of the New Jersey State Board of Higher Education and the New Jersey Higher Education Assistance Authority to commend you for taking the leadership in a national campaign to reduce Guaranteed Student Loan defaults, and at the same time to caution you about the serious impact which your proposals could have on collegiate minority student recruitment programs unless these proposals are modified.

Those New Jersey colleges whose former students have the highest default rates share one thing in common: they serve large numbers of low-income, poorly prepared, non-traditional and often minority students. More than half of the GSL borrowers at the community colleges with high default rates have incomes under $15,000 per year. Our four-year colleges with default rates over 20% have some of the highest proportions of minority students and need-based state grant recipients in the state. These are students who should not be required to borrow at all. They borrow because they cannot get sufficient grant funds to meet their needs.

The New Jersey Board of Higher Education has for many years promoted policies of access and minority recruitment for our colleges and universities. The Board strongly believes that collegiate institutions have the responsibility to promote educational opportunities for the least fortunate New Jersey residents. Consequently, every institution of higher education in New Jersey is urged to recruit at least 10% of its freshman class from high risk, underprepared, and economically disadvantaged students through the state's Educational Opportunity Fund program. In addition, our county community colleges have a policy of open access for students at any level of academic

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preparedness. All of these students are required to take the New Jersey College Basic Skills Placement Test, and are placed in remedial programs of reading, writing, and mathematics if the test scores and their backgrounds indicate serious weaknesses.

Because of these efforts many students are able to overcome their poor basic skills preparation, enroll in college level courses, and complete their college education. Some, however, are not able to do so and withdraw; if these students had to borrow, they are more likely to default on their loans because they do not qualify for the kind of jobs which provide sufficient income to make the payments.

We are all aware of this problem and the dilemma it poses: by restricting the availability of student loans, we may deny educational opportunity to high risk students; by providing the loans we increase the risk of default. The New Jersey Board of Higher Education has addressed this problem by adopting a policy of discouraging student loan borrowing by low income students during the first two years of college when the risk of withdrawal is the highest. We have supported this policy with a generously funded program of state grants which reduce tuition for all low income students and provide additional grant awards to high risk students. The result has been that a relatively low proportion of students actually need to borrow to go to college in New Jersey. At most four-year public colleges less than one-quarter of the full-time undergraduates borrow, and, at most two-year community colleges, this figure is less than 10%. Although the default rate of the small proportion of students who actually borrow may be high at a few of these colleges, the relationship between defaults and total enrollments is quite low. This is a crucial aspect of any program to evaluate schools on the basis of default rates. Certainly the four New Jersey schools listed with a 100% default rate cannot be fairly evaluated on the basis of the <u>one</u> defaulted loan that the rate represents.

It is important, therefore, that your regulations recognize successful state and institutional efforts to limit the need for high-risk students to borrow through the GSL program. Colleges do not have the authority to prevent students from borrowing. They can only influence the default rate indirectly, by either limiting the enrollment of high-risk students or by providing students with adequate financial aid so that they are not dependent on loans to finance their higher education. Loan counseling and the other actions you suggest can have beneficial effects among many students, but will not solve the basic problem for colleges with programs to provide educational opportunity for the poor and poorly prepared. They will be discouraged from recruiting high-risk students and become caught between

a state policy to expand access and a federal policy to reduce defaults.

Therefore, while we support your efforts to reduce defaults, we urge you to consider the following modifications in preparing the draft regulations:

1) Expand the criteria to take into account the proportion of students actually borrowing, as well as the default rate of those who do borrow. At least 20%-30% of full-time equivalent students should be borrowing through the GSL program before any action is warranted.

2) Use the two-year cohort default rate together with a total enrollment default rate as a preliminary step to identify institutions that warrant further inquiry or program review. The program reviews should then investigate the extent to which institutional policies and procedures actually contribute to default, based on such criteria as whether the institution provides testing and placement in remedial programs, how effective these programs are, how effective the loan counseling programs are, and how timely are tuition refund practices and notification to lenders of changes in enrollment status.

3) The type of sanction applied - limitation, suspension or termination - should be based on the number and extent of the problems found in the program review, and should apply only to federal student loan programs.

The New Jersey Higher Education Assistance Authority (NJHEAA) implemented a program similar to your proposal in 1986, which I have called to your attention in previous correspondence. The NJHEAA was one of the first guarantee agencies to measure defaults on the basis of student cohorts annually entering the repayment period. The institutions with cohort default rates over 20% for 1983-4 were notified of our concern and were visited for a preliminary program review. The reviews of 29 proprietary schools with high default rates revealed some remarkable patterns: an overreliance on student loan funds for cash flow, with 50% to 90% of all students borrowing; very high withdrawal rates, often over 50%; large proportions of students admitted without high school diplomas and no requirement that the basic skills necessary to complete the course of studies be learned; and, sometimes, administrative deficiencies in refund practices, timely notification of enrollment status to lenders, and documentation.

As a result, in September 1986, the NJHEAA adopted a A Plan to Assess GSL Compliance and Initiate Appropriate Corrective Measures, which set forth five basic criteria for evaluating a GSL program and imposing various sanctions. This was followed by audits carried out by our Management Compliance Unit. So far, we have signed a consent agreement with one school to limit GSL borrowing to 50% of the students, and have notified two others of limitation or suspension from the GSL program. The Essex College of Business in Newark and the School of Business Machines in Jersey City will be required to limit their loans to no more than 50% of their students. The American Business Institute in Newark is suspended from the program, effective January 1, 1988 for a period of eighteen months. All three institutions will be required to file plans for corrective action before they will be reinstated.

Your office can help the NJHEAA maintain the integrity of the GSL program in New Jersey by extending these limitations to all agencies which guarantee loans for these schools. Unfortunately, under the current regulations these sanctions will not actually limit GSL participation at these institutions, since they can still go to national guarantors who will provide them with access to the program.

We share your concerns regarding high default rates in the guaranteed student loan programs. The use of student cohort default rates as a first step in identifying institutions who need to do more to help reduce defaults is laudable, and New Jersey will cooperate with such an effort.

Your proposal, however, unless modified to overcome its present limitations and used in conjunction with other measures, would undermine minority recruitment efforts by penalizing institutions that offer access to high-risk students. Properly implemented, and used in conjunction with programs to support high-risk, low income students with grants rather than loans, your proposal could reduce defaults and eliminate those institutions that exploit the GSL program by encouraging borrowing by students who cannot hope to repay their loans.

Sincerely,

T. Edward Hollander
Chancellor

LKB/dm

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